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PROPERTY ASSESSMENT IN MONTGOMERY COUNTY

SUMMARY REPORT

OF THE

MONTGOMERY COUNTY COUNCIL'S

TASK FORCE ON REAL PROPERTY ASSESSMENT PRACTICES

MARCH 1978

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St Foster, Chairman

March 21, 1978

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The Honorable Elizabeth L. Scull, President  
Montgomery County Council  
100 Maryland Avenue  
Rockville, Maryland 20850

Dear Mrs. Scull:

Attached is the summary report of the Task Force on Real Property Assessment Practices. The full report of the Task Force, which provides a highly detailed analysis of the entire assessment process, will be released as a separate volume.

As you know, property assessment is at once a highly technical and highly emotional matter. The County Council showed foresight in appointing a Task Force that consisted of people with the professional skills necessary for technical analysis, and who also represented the full range of views on the assessment system. I believe the result is a report that is unusual in its depth of analysis of complex data, and balanced in its policy recommendations.

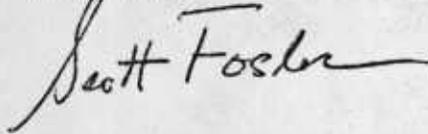
I am indebted to the members of the Task Force for their hard work, persistence, and cooperation. Our discussions were lively and productive, with the inevitable differences of interpretation and opinion always reasonable, intelligently expressed, and constructive. I estimate that to date the Task Force has devoted in excess of 2,000 person hours to this effort.

The Task Force, in turn, had the full cooperation of all the public agencies and officials involved in the assessment process: the State Department of Assessment and Taxation, and its Montgomery Supervisor of Assessments; the Property Tax Assessment Appeal Board; the County Public Advocate for Assessments and Taxation; Department of Finance; Management Information Service; and the County Attorney's Office. People to whom we are grateful for their special assistance include: E.E. Rhinehart, Computer Systems Team Leader, Management Information Service; Dr. Ira Epstein, Urban Economist, Research Division, Maryland National Capital Park and Planning Commission; Lawrence Ford, Systems Analyst, Office of Research and Statistics, Fairfax, County; and the Council Staff with special assistance from Joanne Jacka, Catherine Stover, and Charles Marsteller. Irene Hosford and Barbara Cobb of Intergovernmental Programs have assisted with the typing.

I would also like to personally thank the County Council for your full support and encouragement. Special thanks are due Councilman Neal Potter for so generously giving us his time and expertise.

The Task Force believes the citizens of Montgomery County can be confident that this report represents a careful and objective review of property assessment in Montgomery County.

Sincerely,

A handwritten signature in cursive script that reads "Scott Fosler". The signature is written in dark ink and is positioned below the word "Sincerely,".

R. Scott Fosler, Chairman  
Task Force on Real Property  
Assessment Practices

Attachment  
RSF:cs

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## PRINCIPAL FINDINGS AND RECOMMENDATIONS

Property taxes have increased faster than the cost of living in Montgomery County because as assessments have risen in response to increasing property values, there has been no corresponding reduction in the property tax rate. This situation has raised three types of concerns.

First, rising property taxes are burdensome to all who pay them. The increasing tax burden on property owners results both from the need for government to raise revenue to finance the increasing cost of government, and from the proportionate share that property taxes represent of all revenue sources. The rising cost of government can only be curbed by reducing the level of government services, or improving the management of resources. The proportionate share of the cost of government borne by the property taxpayer can only be reduced by shifting part of the tax burden to other sources of revenue.

Second, some property owners are suffering an inordinate burden because their property taxes consume so high a proportion of their income. The Task Force recommends this problem be addressed in part through extension of the property tax circuit breaker.

Third, there is concern that property assessments are not equitable. The Task Force concluded that while assessments in Montgomery County may be more equitable than in many other jurisdictions, inequities do exist that could be corrected. The Task Force was requested by the County Council to direct its attention principally to this question.

There are several types of assessment inequities:

- While nearly all properties are assessed below 50 percent of market value as required by State law, all properties are not assessed at uniform rates.
- Properties in various geographical areas of the County tend to have varying rates of assessment.
- Assessment rates can differ between higher-priced and lower priced property.
- Assessment rates tend to vary among different categories of property.

While the inequities on the average are not enormous, some are sufficiently large that they should be, and could be, corrected.

One of the principal reasons for perceived inequities is that public standards of fairness in assessment have become more demanding as assessments and property taxes have risen. Consequently, even if assessments have become more accurate and equitable over the years, the public's desire for equal assessment and smaller margins of error has become even more exacting.

Since property assessment in Montgomery County is the responsibility of the State of Maryland, most of the actions that can be taken to improve the assessment system must be initiated by the State government. The Task Force believes that a series of actions is required, and recommends specific changes in several areas:

#### Clarifying Standards

- that income capitalization be one of the approaches used to determine assessments for commercial/industrial as well as apartment properties.
- that corrective measures should be used to assure that assessments of commercial/industrial and apartment properties do not result in disproportionately lower assessment ratios than apply to residential properties that are assessed by the sales method.
- that the assessor more aggressively use existing authority to request owners of commercial/industrial and apartment properties to submit income and expense data to the assessor's office.
- that the State assessment manuals include definitions and procedures for the sales and income approaches to assessment, as well as the cost of replacement approach, or that at a minimum, the manual specify procedures or reference documents to be used in making appraisals using the sales and income approaches.
- that both the assessment manuals and the directives of the State Department of Assessments and Taxation relating to methods for assessing property, be made available to the public in the Supervisor of Assessments' offices and in public libraries.
- that the assessment level as a proportion of market value should remain constant so that taxpayers can better understand the relationship between the assessment and the tax rate, and not be misled into thinking that reduction in

assessments will necessarily result in a reduction in property taxes.

- that all properties continue to be reassessed on an annual basis.

#### Improving Methods and Procedures

- that the County Supervisor of Assessments use objective statistical techniques for the appraisal process, document the range of possible appraisals for each property, and make explicit the nature and effect of judgments made by the assessor in arriving at a final assessment.
- that Montgomery County be provided with a more effective, computer-based system that would provide alternative valuations for each property -- including the cost of replacement, sales and trend analysis -- to aid the assessor in making more accurate and uniform assessments, and to facilitate understanding and review by the taxpayer. The computer system should also be used to index assessments using the latest available sales data so that uniformity is established as close to the date of finality as possible. We would prefer that the State Director of Assessments and Taxation plan, implement and fund such a system in the near future. If the State cannot or will not do this, we believe the County should be enabled to develop such a system on a cooperative basis with the Office of Assessments and Taxation, using supplemental funding provided by the County.
- that the assessor retain, along with his sales analysis, a record of the analysis leading to his decision to depart from the factors prescribed in the manual and an identification of the properties (or types of property) to which the adjusted factor was applied.
- that increased resources be allotted for training of the existing staff and for the addition of specialized staff so as to improve its ability to assess commercial and industrial property.

#### Strengthening Management

- that steps also be taken to give the County government a more direct influence in the assessment system to assure continual improvement in equity.

- that the State Director take steps to assure that each division of his Department, including the Montgomery County office, achieve its highest potential of performance, and that statewide standards for assessment procedure be tailored so as not to prevent or discourage the Montgomery County office, or other local offices, from employing the most advanced assessment techniques and technology.
- that the State continue its effort to achieve uniformity of assessments among jurisdictions throughout the State; however, we believe it would be preferable to urge all divisions to move toward the highest standards of performance rather than toward an average or mediocre standard. We further recommend that for purposes of levying the State property tax and determining distribution of State grant funds, adjustments in the property base be made to fully account for the lack of uniformity of assessments of the State's subdivisions.
- that the County Supervisor establish an annual assessment system improvement process which includes formulation of objectives for specific improvements, consideration of alternative approaches for improvements, implementation, and evaluation of whether objectives have been achieved.
- that the County Delegation introduce legislation supporting pay differentials among different counties, so that assessors and other personnel in like positions can afford to live in the counties where they are assigned to work.
- that the State Secretary of Personnel (1) establish a pay increase differential for assessors handling such specialized functions as commercial, personal property and farm assessments, and (2) establish an intermediate managerial position between the present Assessor III and Field Supervisor positions.

#### Evaluating Performance

- that the Montgomery County Supervisor of Assessments should assess the accuracy and uniformity of assessments as of the date of finality, using a widely accepted method of statistical evaluation, and should issue annually a report on patterns of assessment changes and assessment accuracy and uniformity among classes of property, districts, and subdivisions.

- that the State Department of Assessments and Taxation should place greater emphasis on developing the capability and providing the incentive for more effective evaluation of County assessments.
- that the Montgomery County government should regularly evaluate assessments to determine their accuracy and uniformity, identify problems, keep County citizens informed as to the equity of assessments, and recommend corrective actions to the State.

### The Appeal Process

- that (1) continuation of the recently instituted procedure of making the applicable residential sales analysis available to a property owner upon request; (2) release of stated reasons for assessment reduction before PTAAB and Tax Court; (3) report of reason for assessment change; (4) extension of the appeal period from 30 to 45 days after notice of assessment; and (5) provision of assessment interpretation aid to property owners by a paraprofessional located within the Supervisor's office.
- that the assessor be limited in defense of his assessment to sales in the base period used to establish the original assessment.
- that systematic assemblage, organization by property class and reason for appeal, and evaluation and feedback into assessment and appeal processes of the results of appeals, and publication annually of a report of these results in terms of numbers of appeals, amount of assessment and percent of assessment change, and assessment subdivision, and that adequate staff be provided for these tasks.
- that appeals of properties above a moderate price value -- currently in the above \$150,000 range, although the applicable price range may increase with inflation -- should proceed directly to the Maryland Tax Court.
- that the name of the Public Advocate be changed to the Office of Assessment Review, and that it be provided sufficient resources to permit the Office to step up its activities, including continual use and further development of the computer-based evaluation program established by the Management Information Service in conjunction with the Task Force.

Informing the Public

- that a pamphlet be prepared by the County government explaining property tax assessments and appeal procedures in layman's terms.

The Task Force believes there is a genuine desire on the part of all involved in the assessment process to achieve the highest degree of equity possible. We hope our report will provide a guide to cooperative and constructive action toward that goal.

Table of Contents

	Page
Introduction . . . . .	1
Assessments in Perspective . . . . .	1
The Property Assessment System . . . . .	3
Methods of Assessment. . . . .	4
Residential Assessment . . . . .	5
Commercial/Industrial Assessment . . . . .	6
Apartment Assessment . . . . .	6
Extent of Inequity in Assessments. . . . .	6
Possible Sources of Inequity : . . . . .	13
Recommendations. . . . .	15
Clarifying Standards. . . . .	15
Improving Methods and Procedures. . . . .	17
Strengthening Management. . . . .	18
Evaluating Performance. . . . .	22
The Appeals Process . . . . .	23
Informing the Public. . . . .	25
Future Work of the Task Force. . . . .	26
Conclusion . . . . .	27

(This summary is based on work to date of the Task Force. The more extensive analysis on which it is based will be released as a separate volume, along with further recommendations as deemed desirable by the Task Force.)

## PROPERTY ASSESSMENT IN MONTGOMERY COUNTY

### Introduction

The Task Force on Real Property Assessment Practices was created by the County Council to identify any inequities in the assessment system, and, if discovered, to recommend ways of correcting them. The Task Force has concluded that there are inequities in property assessment in Montgomery County; some are the inevitable consequence of the limits to the precision of assessment standards and appraisal techniques, while others are subject to correction through more effective operation of the State assessment system.

Measured against the standards of the past and the average quality of property assessment nationwide, the assessment system administered by the State of Maryland in Montgomery County probably compares favorably. Compared, however, to the higher standards of accuracy and equity now demanded by taxpayers, and to the superior quality of property assessment achieved by the nation's best assessment systems using up-to-date techniques, the assessment of property in Montgomery County could be substantially improved.

The first step toward achieving the standards we believe both desirable and possible is for all interested parties -- taxpayers, State assessment officials, County officials, and others -- to recognize that improvement will require numerous modifications rather than one or two major changes. To achieve these modifications in a coordinated fashion will require cooperation. We believe there is a genuine desire on the part of all parties to improve the practice of property assessment in Montgomery County. We offer the following analysis and recommendations as a guide to this cooperative action.

### Assessments in Perspective

The public perception that property assessments have risen at extraordinarily high rates in recent years is accurate. Between 1972 and 1977 assessments on existing residential property increased by 102 percent while the Consumer Price Index rose 48.9 percent.<sup>1</sup> There is widespread misunderstanding, however, as to the relationship between assessments and property taxes. Assessments have

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<sup>1</sup>Ira Epstein, Analysis of Growth in Montgomery County Real Property Tax Base, FY 1967-1968 to FY 1976-1977, Montgomery County Planning Board, August 1977, p. 16. Calculations were made by Dr. Epstein based on data in Table 7.

increased because the property values, on which assessments are based, have risen. Property taxes have increased because as assessments have gone up there has been no offsetting decrease in the property tax rate.

All too often, the assessor -- whose job is simply to determine the value of property -- is a visible and convenient target for general complaints about taxes, inflation, and the cost of government over which he has no control. The appropriate question to raise with the assessor is whether assessments are accurate and equitable.

The growing perception of inequity in assessments is partly attributable to the public's unwillingness to accept margins of error or assessor judgment that have been accepted in the past. When assessments rise, perceived inequities become more obvious and more onerous. Public standards and scrutiny of the assessment process have outpaced improvements in the precision of assessment in Montgomery County.

No matter how much assessment practices may have improved in Montgomery County in the past, and no matter what degree of inequity may persist in the future as a consequence of the limits to assessment accuracy, the first order of business is to assure that property assessment is as accurate and equitable as possible through the use of the best available assessment practices, and to assure the public that every effort is being made to achieve the fairest possible system of property assessment.

Achieving equity in assessments will not reduce the overall tax burden required to fund the current level of government. That can only be accomplished by restraining the cost of government.

Nor will equitable assessments necessarily provide relief to those citizens whose property tax burden has risen substantially faster than their incomes. Such relief will require more direct action. We support relief for hardpressed property taxpayers, especially those on modest incomes who are compelled to pay an inordinate proportion of their income in housing costs, which include property taxes. Whatever action is taken, however, to lessen the burden on specific classes of property taxpayers should not impede the professional determination of accurate and equitable assessments. Legislative actions that divert the assessor from determining the actual market value of property do a disservice by imposing distortions and compounding, rather than correcting, assessment inequities. As a means of providing direct relief to property owners who have been hardest hit by rising assessments, we recommend extension of the property tax circuit breaker to all age groups that qualify under established income and net-worth criteria.

The Task Force focused its attention on ways to assure that property assessments are as equitable as possible. With a clear understanding of the role of assessments in determining property taxes, and with confidence that property is equitably assessed, the public and government officials should be better able to address the separable question of how to relieve the burden on property taxpayers through changes in tax rates.

### The Property Assessment System

The property tax is presently the single most important source of revenue for the County government. It generated an estimated \$203.8 million for the Montgomery County government in FY 1977, or about 42 percent of total County government revenues. The County income tax, by comparison, produced an estimated \$80 million in the same year, or about 17 percent of County revenue. The real property assessable base in Montgomery County was \$5.6 billion in 1977.<sup>2</sup> Real property accounts for about 88 percent of total assessable base; personal property accounts for the other 12 percent, a share that has slipped from about 14 percent in 1968.<sup>3</sup>

The distinction between property assessments and property tax rates should be made clear. The assessment is the estimated "full cash value" -- or market value of the property minus a percentage known as the "inflation factor," which most recently has been set by the Governor at 50 percent of market value. The property tax rate is the amount each property owner must pay for every \$100 of assessed value.

Assume, for example, a residential property is determined to have a market value of \$50,000 and the tax rate is set at \$4.00 per \$100 of assessment. The actual tax paid would be the following:

---

Estimated market value or valuation	\$50,000
Minus 50 percent	<u>25,000</u>
Assessment	\$25,000
Tax rate	x \$4.00 (per \$100 of assessment)
Tax	\$1000.00

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<sup>2</sup>Statistical Profile of Montgomery County, Montgomery County Government, p. 9-8.

<sup>3</sup>Ira Epstein, op. cit., p. 2.

The assessment of property in Montgomery County is the responsibility of the State of Maryland. The State Department of Assessments and Taxation maintains an office in Rockville known as the Office of the Supervisor of Assessments for Montgomery County, which assesses all property in Montgomery County according to State law and State guidelines, and is completely independent of the County government. Any changes in the assessment system must be undertaken by the State.

The assessment established by the State is used as a base against which various tax rates are applied. The principal property tax rate is set by the County government, according to a formula which accounts in part for the type of services received by residents. Additional tax rates are set by municipalities and special tax areas for their residents, and by the State government which currently levies a 23¢ tax per \$100 on all taxable property. All of these property tax rates are combined and collected simultaneously by the County government which distributes the revenues to the various governments that levied the taxes. Thus, while the average property tax rate in 1977 was \$3.93 on each \$100 of assessed value, tax rates applied to individual properties ranged from a low of \$3.34 to a high of \$4.75 depending on the location of property and the services received. The key point, however, is that the tax rates are set independently by taxing authorities, while the assessment of property is undertaken independently by the State.

#### Methods of Assessment

The State assessor uses one or a combination of three methods to determine the "full cash value" of a property.<sup>4</sup>

- 1) Market or sales - determining how much the property would sell for on the open market by comparing recent sales of comparable properties;

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<sup>4</sup>More technical definitions of the three methods of determining value are as follows:

"1) Market - An appraisal technique in which the market value estimate is predicated upon prices paid in actual market transactions and current listings, the former fixing the lower limit of value in a static or advancing market (price wise), and fixing the higher limit of value in a declining market; and the latter fixing the higher limit in any market. It is a process of correlation and analysis of similar recently sold properties. The reliability of this technique is dependent upon (a) the degree of comparability

- 2) Income - estimating the value of the property according to the income it generates;
- 3) Cost of replacement - estimating the cost of replacing or reconstructing the "improvements" or buildings.

### Residential Assessment

In assessing residential property, the assessor uses a combination of the sales and replacement approaches. The overall value of a property is determined by comparison of recent sales of similar properties in the same subdivision, or neighborhood. The overall estimate of value is divided into two parts: the improvement (typically the house and garage), and land.

The value of improvements is estimated by the "cost of replacement" approach. The physical characteristics of each property are determined by a visit to the property by an assessor once every three years and are recorded on an individual worksheet for each property. Such physical inspections are typically brief, taking no more than several minutes, and rarely include an inspection by the assessor inside the dwelling. The assessor estimates the value of

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of each property with the proper under appraisal, (b) the time of the sale, (c) the verification of the sale data, and (d) the absence of unusual conditions affecting the sale.

2) Income - An appraisal technique in which the anticipated net income is processed to indicate the capital amount of the investment which produces the net income. The capital amount, called the capitalized value, is, in effect, the sum of the anticipated annual rents less the loss of interest until the time of collection. The reliability of this technique is dependent upon four conditions: (a) the reasonableness of the estimate of the anticipated net annual income, usually the economic life of the building; (c) the capitalization (discount rate); and (d) the method of conversion (income to capital).

3) Cost of replacement - A method in which the value of a property is derived by estimating the replacement or reproduction cost of the improvements; deducting therefrom the estimated depreciation; and then adding the market value of the land. This approach is based upon the assumption that the reproduction cost now normally sets the upper limit of building value provided that the improvement represents the highest and best use of land."

each physical feature of the improvement, using cost factors and methods contained in a manual issued by the State assessment office as a general but not binding guide.

The land value is estimated to be the residual, or the difference, between the total value of the property as determined by sales of comparable properties, and the value of improvements as determined by the cost of replacement approach. Land values, however, may be adjusted according to prevailing market values per square foot of similar properties.

#### Commercial/Industrial Assessment

Commercial and industrial properties are assessed principally by the cost-replacement method. The sales method is used only to a limited extent since there are few sales of comparable commercial properties in any given year. The income method is rarely used since commercial property owners do not submit -- nor can they currently be compelled to submit -- the income data needed for such a calculation.

#### Apartment Assessment

Assessment of apartments is determined principally by the income method, along with some sales comparison. About 30 percent of apartment owners submit income data voluntarily in response to a request from the assessors. These comparative income data are the base used to establish the value of all apartments.

#### Extent of Inequity in Assessments

To what extent is the real property assessment system equitable? By "equity" we mean principally the uniformity of assessments. Under Maryland law uniformity is achieved when every property is assessed at the same proportion of market value. By current State standards, all properties are supposed to be assessed at 50 percent of market value on the data of finality (which is January 1st of the levy year). Consequently, while a property assessed at 40 percent is under-assessed according to State law and standards, property assessed at 30 percent is not only underassessed but is paying a disproportionately smaller share of taxes than the property assessed at 40 percent, even though both properties are underassessed. Put another way, inequity among property assessments results when properties are assessed at different, or non-uniform, proportions of their respective market values, even if all are assessed below 50 percent as required by State law.

The term "inequity" in this sense does not refer to property owners whose property tax may consume an inordinately high proportion of their income. Even if assessments were uniform and hence technically "equitable," some property owners may pay a much larger proportion of their income in property taxes than others, to the point that property taxes place a severe and inordinate strain on their budgets. This is a serious problem that needs to be addressed, but it is separable from the more narrow question of whether properties are assessed at a uniform proportion of market value.

In order to identify any inequities among property assessments in Montgomery County, the Task Force worked with the County Management Information Service to produce a computer-based analysis of most property sales in the County from 1974 to 1977 compared with their assessments.<sup>5</sup> This analysis provides the first comprehensive evaluation of assessment/sales ratios ever done in the County.<sup>6</sup> It was supplemented by other data to determine the extent of inequities in property assessment.

In making this analysis, the Task Force had to face a key decision: what time period to use for identifying sales which are to be compared with the assessment for a particular levy year. The law requires that assessments be set uniformly relative to the value on the date of finality. The assessor, for practical reasons which will be discussed later, makes assessments on the basis of sales which occur 12 to 30 months prior to the date of finality. Yet, most evaluations of assessment systems compare assessments with sales occurring in the year following the date of finality. This last method, the one we chose to use, is really the acid test of an assessment system. A "perfect score" would require the assessor to project inflation rates an average of six months beyond the date of finality -- something assessors are currently forbidden by law to do. So, under this standard, even an assessment system which established perfect uniformity on the date of finality would exhibit some dispersion due to unequal rates of inflation during the following year.

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<sup>5</sup>There are instances where property sales are not conducted at "arms length," and hence the sales price may not reflect "real market value," as for example when a father sells his son a property at a reduced price. The analysis attempts to account for most "arms length" sales by eliminating assessment/sales ratios greater than 60 percent or less than 20 percent on the assumption that these extremes do not result from inaccurate assessments but unusual circumstances related to the sale of the property.

<sup>6</sup>The assessment/sales, or A/S, ratio is obtained by dividing the assessed value of a property by its sale price.

Naturally, a system which establishes uniformity in a period of 12 to 30 months prior to the date of finality would likely produce greater disparities.

Why, then, was this method used, rather than comparing assessments with the sales period used by the assessor in making the assessments? The stringent method was used for two reasons:

- 1) It is a method widely used for overall evaluation of assessment systems.
- 2) We believe that establishing uniformity as of any date or time period prior to the date of finality could result in an inequity by favoring those properties which are appreciating more rapidly. Such properties are assessed lower, relative to all properties, than they would be if assessed on the date of finality as required by law.

We recognize that practical considerations currently limit the ability of the Montgomery County assessor to assess properties as of the date of finality. Further, we recognize that the Montgomery County Assessor has been directed by the State Director to use the earlier time period in establishing uniform assessments. Nonetheless, we feel that the resulting disparities are in fact inequities, and are correctable by means which will be discussed later. It should also be stressed that the analysis deals only with properties that sold during the period studied. We believe it is reasonable to assume that these properties in general, and except when specified, tend to be representative of all properties. However, that assumption has not been verified by any test of statistical significance. Consequently, discretion is required in reaching conclusions from these data.

The disparities reflected in the analysis are of several types. First, assessment/sales ratios can vary substantially from property to property. The average A/S ratio for residential properties sold in FY 1977 was 41. About 43 percent of those properties had A/S ratios between 38 and 44, or were reasonably close to the average for all properties.<sup>7</sup> However, 18 percent of the properties had A/S ratios below 38, while 39 percent had A/S ratios above 44. This means that a substantial proportion of properties (the 39 percent

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<sup>7</sup>The standard deviation of the mean for residential properties sold in FY 1977 was plus or minus 5 ratio points above the Countywide mean A/S ratio of 41 for that class of properties. That is, about two-thirds of the properties in that class had A/S ratios between 36 and 46.

with A/S ratios above 44) were assessed at rates that were at least 12 percent higher than another group of properties (the 18 percent with A/S ratios below 38).

Second, assessment/sales ratios can vary from one geographical area of the County to another. Four assessment districts (which correspond to election districts) comprise 75 percent of all residential properties and of properties sold in FY 1977; Rockville (District 4), Bethesda (District 7), Gaithersburg (District 9), and Wheaton (District 13). The Bethesda district had an average A/S ratio that was 5 ratio points below that of Gaithersburg for residential properties sold in FY 1977. While this means that many of the properties in Bethesda were underassessed compared to properties in Gaithersburg, it is also the case that other properties in Bethesda were overassessed compared to some properties in Gaithersburg.

The disparities are greater if the smaller assessment districts are taken into account. For example, in Gaithersburg, District 9, 58.4 percent of properties had A/S ratios above 44, while in District 2, Clarksburg, only 18 percent of the properties had A/S ratios above 44. In District 3, Poolesville, only 9 percent of the properties had A/S ratios below 38, while in District 11, Barnesville, 60 percent of the properties had A/S ratios below 38.

Third, assessment/sales ratios can differ between higher-priced and lower-priced properties. While the Task Force did not have the resources to analyze these differences in the detail that would be desirable to establish a precise indication of their statistical significance, our judgment is that the assessment process tends to result in a relative disadvantage for some lower-priced properties, and a relative advantage for some higher-priced properties. As can be seen in the table below, there is a small but consistent progression of differences of average ratios that seems to indicate a tendency toward an inverse relationship between the sale price of property and its proportionate level of assessment.

<u>Price</u>	<u>Average A/S Ratio (FY 77)</u>
0 - \$ 50,000	43.7
\$ 50,000 - \$ 75,000	42.1
\$ 75,000 - \$100,000	40.9
\$100,000 - \$150,000	38.7
\$150,000 and above	37.4

The differences in average A/S ratios from one price category to the next are so small in fact that they may not be significant. However, the difference between the lowest price category and the highest price category -- the average A/S ratio for the 0-\$50,000 category is 16 percent higher than the average A/S ratio for the \$150,000 and above category -- is sufficiently large as to indicate a problem does exist. Moreover, the fact that the tendency is consistent among all price categories, for all property classifications, and for all the years studied, strongly suggests that the tendency is not simply the result of statistical happenstance.

This does not necessarily mean that owners of lower-priced homes are paying higher taxes than owners of higher-priced homes. Even if a higher-priced home had a lower relative assessment the actual value of that assessment may still be higher than those of lower-priced homes, and so the resulting property tax paid would also be higher. Nor would it necessarily follow that poorer taxpayers are thereby subsidizing richer taxpayers; a person with a modest pension living in a higher-priced house that may be relatively underassessed, may nonetheless be "poorer" than a person with a high income living in a lower-priced house that is relatively overassessed. It should also be noted that the indicated A/S ratios are averages for the various price ranges; the tendency may not hold true for every property, since, for example, a given lower-priced property may have an A/S ratio lower than a higher-priced property. The important point is that assessments are supposed to reflect the actual market value of properties, and the evidence suggests a tendency for some higher-priced properties to be underassessed relative to some lower-priced properties.

There may be two principal explanations for this tendency. One is that higher-priced properties appreciate at a more rapid rate than lower-priced properties, so that while the assessments may be uniform when they are calculated by the assessor, by the time the assessments are formally established for a levy year the property values have increased at different rates, resulting in a lack of uniformity in A/S ratios at the time the property tax is levied.

A second explanation is that because there are few properties in the highest and lowest price categories, the mass assessment techniques used by the assessor are not as accurate for those categories as for the middle price ranges where there are more properties and hence greater consistency and reliability in assessment techniques.

Fourth, assessment/sales ratios can vary among the different classifications of property. The average A/S ratios for the various

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classes of property in 1977 were as follows:

<u>Class of Property</u>	<u>Average A/S Ratio</u>
Condominium	44.7
Residential	41.0
Commercial/Industrial	37.5
Apartment	36.8
Farm	18.4

The unusually low A/S ratio for farms can be explained principally by the fact that according to State law, farmland is not intended to be assessed at market value, but rather on the basis of its value as farmland. Thus, a farm may have a potential market value significantly higher than its assessed value as farmland so that when it sells at its real market value, the A/S ratio will tend to be low. Some farm property is held for speculative purposes and continues to be assessed at farmland values far below its real market value for residential or commercial use.

The average A/S ratio for commercial/industrial and apartment properties sold in 1977 may not be representative of all properties in those two classes. There are relatively few sales of commercial/industrial or apartment properties in any year, and most of those sales tend to be of lower-priced properties. Not only do lower-priced properties tend to have higher A/S ratios, but many of the commercial/industrial and apartment properties that do sell are those which are likely to be less profitable than the average and hence would sell at relatively lower prices, thereby producing a higher A/S ratio.

Further evidence also suggests that commercial/industrial property may be underassessed relative to residential property. Here again, the data are not conclusive, but are highly suggestive. In the six year period FY 1972-73 to FY 1977-78, the assessments on existing commercial/industrial properties increased by only 39.1 percent while the assessments on single-family residential property increased by 102.0 percent, or two-and-one-half times as fast. The disparity in rates of assessment increase between the two classes of property does not in itself demonstrate an inequity in assessment since the respective assessment rate increases may reflect different rates in the growth of actual commercial and residential property values. It is important to note, however, that during this period the national Boeckh construction cost index for

commercial and factory construction increased 54.2 percent while the residential construction cost index increased by only 49.0 percent. Thus, although nationally the cost of commercial/industrial construction increase was 5 percent greater than for residences, assessments of commercial/industrial property increased less than the cost of construction, while residential assessments increased more than twice as fast as the cost of construction. This is especially troubling given the fact that commercial/industrial property is assessed by the cost of replacement approach, and thus would seem to be expected to rise commensurately with increases in prevailing construction costs. By contrast, residential and commercial/industrial property assessments in Fairfax County have tended to rise at more nearly similar rates.<sup>8</sup>

Average Annual Increase in Assessments \*

	<u>Commercial/ Industrial</u>	<u>Single-Family Residential</u>	<u>Consumer Price Index</u>
FY 72-73	3.6	7.4	2.7
FY 73-74	-4.8	11.6	6.1
FY 74-75	14.6	20.0	10.7
FY 75-76	1.0	13.0	8.4
FY 76-77	10.3	12.8	6.3
FY 77-78	10.5	10.2	7.1
Total increase	39.1%	102.0%	48.9%

\* Percentages reflect increased assessments for existing property and do not include additions to the assessable base.

Source: Ira Epstein, Analysis of Growth in Montgomery County Real Property Tax Base, FY 1967-1967 to FY 1976-1977, Montgomery County Planning Board, August 1977.

<sup>8</sup>Memorandum from County Executive Leonard Wharton to Fairfax County Board of Supervisors, May 23, 1977, "Comparison of Assessed Value Changes for Commercial and Industrial Properties versus Residential Properties." Attachment E. The percent change in assessed value of commercial and industrial property, 1970-1977, was 75.4%, and for residential property, 1970-1977, was 75.2%. These figures include additions to the assessable base, and hence are not totally comparable to the figures shown for Montgomery County.

Fifth, there are varying degrees of uniformity among assessments, as indicated by the coefficients of dispersion. The "coefficient of dispersion" (COD) measures the degree of uniformity in assessments among properties examined. The COD's in Montgomery County for Commercial/Industrial (23.5 percent), Apartment (21.5 percent), and Farm (39.4 percent) properties were significantly higher than for Residential property (9.2 percent). While the COD of 9 percent for residential properties in Montgomery County in 1977 may be considered acceptable, by professional assessment standards, it is greater than the 5 percent COD achieved by Fairfax County<sup>9</sup> for all properties.

#### Possible Sources of Inequity

The inequities identified by the Task Force have various sources, some of which operate in combination.

One source of the lack of uniformity in assessments which can never be fully eliminated is human and machine error, differences in assessor judgment, and the limits of technical accuracy. We believe, however, that these factors can be minimized, and that together they should account for no more than plus or minus 5 percent in the assessment of any given property, a margin of error that is well within the capability of modern assessment practices.

Beyond the reasonable margin of error, however, the Task Force found that problems in establishing accurate and uniform assessments can derive from each of the major components of the assessment system. Of these, we focused on five, each of which is discussed in greater detail in the full Task Force report:

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Standards and definitions - State law establishes the bases for property assessment, either by setting definite standards and definitions -- i.e., what is to be assessed by whom in what manner -- or by determining the process by which they are to be set.

Methods and procedures - State law currently leaves substantial latitude for the State Department of Assessments and Taxation to determine what methods will be used to value property, and what procedures will be followed in the execution of those methods. The Department uses a

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<sup>9</sup>Memorandum from County Executive Leonard Wharton to Fairfax County Board of Supervisors, May 23, 1977, p. 2.

combination of judicial interpretation, professional practice, and its own judgment in establishing methods and procedures.

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Administration of Assessments - Assessments are actually made by people organized to carry out work using technical apparatus -- such as maps, files, data, data processing equipment -- and following a combination of formal and informal practice. The quality and effectiveness of the people, the manner in which they are organized and function, and the methods, procedures, and equipment they actually use, will determine the extent to which the formal assessment standards are met and equity achieved.

Evaluation - Formal and systematic evaluation can check the accuracy of assessments, identify deficiencies that cause inaccurate or inequitable assessments, and lead to corrective action.

Appeal Process - Appeals provide one form of assessment evaluation, limited to those taxpayers who protest assessments as being inaccurate or inequitable. The appeal process, however, not only can redress individual grievances, but can also provide information as to generic deficiencies in the system. On the other hand, to the extent the appeal process fails to correct errors, or favors one class of property over another, it can perpetuate or create inequities.

Deficiencies in any one of these components can produce inequities. Each also needs to function in harmony with the others if the overall system is to operate in a balanced, integrated manner to constantly check its own performance, correct errors, and make improvements that will result in greater accuracy and equity.

The assessment system is far too complex for any outside group -- be it a citizen's task force or the State Legislature -- to identify the precise causes of every inequity or deficiency in operation. The system must be structured in such a way as to provide the capability and the incentive to continually improve itself. This is a complex and full-time job that can only be accomplished by the assessors themselves. The most that can be accomplished from the outside is to periodically evaluate assessment equity and accuracy, identify key problems, correct the structure and management of the system to enhance its capability, and increase incentive for continued self-improvement.

### Recommendations

The Task Force gave some consideration to proposals for fundamental changes in the current system of property assessment and taxation, some of which were submitted by citizens during public hearings and in writing. One proposal, for example, was to eliminate the practice of abolishing the dollar assessment of property in favor of a system of "assessment units" based on a few clearly defined physical and locational features of the property. The tax rate would then be applied against the number of "assessment units" for each property. Another proposal was the long-standing idea of taxing only land, and not improvements. We determined that such fundamental changes may have some merit, but that their advantages over the existing system were not so immediately obvious, nor their disadvantages sufficiently understood, for us to recommend a major change in the system. Rather, we urge further consideration of long-term changes, but focus our attention in this report on ways to improve the existing system.

### Clarifying Standards

State law requires that property be assessed at "full cash value" which "shall mean current value less an allowance for inflation..." Full cash value has been regularly interpreted by the courts to mean market value, however professional definitions of market value vary, and approaches to determining market value vary for different types of property. As a practical matter, it is difficult to use the sales method in assessing commercial/industrial and apartment properties since there are few sales of comparable properties for those classes of properties. At present, however, only the cost of replacement approach is used for commercial/industrial assessments (with minor exceptions) unless the assessment is appealed in which case income data may be used by either the property owner or the assessor to justify the assessment or argue for an adjustment. A limited form of income capitalization is used for apartments, since only about 30 percent of apartment owners comply with the assessor's request for income data. While it would be desirable whenever possible to use comparable sales to establish assessments for these classes of property, we recommend that income capitalization be one of the approaches used to determine assessments for commercial/industrial as well as apartment properties.

The cost of replacement and income approaches can tend to understate real market value, especially in inflationary periods. Corrective measures should be used to assure that assessments of

commercial/industrial and apartment properties do not result in disproportionately lower assessment ratios than apply to residential properties that are assessed by the sales method. One corrective approach would be to apply a cost of construction index, such as the Boeckh index, in determining or adjusting commercial/industrial and apartment assessments.

Income data are currently requested from apartment owners on a voluntary basis, with no penalty for non-compliance. In most instances income data are supplied by commercial/industrial property owners only when they feel that their assessment is too high in order to argue for an assessment reduction. We recommend that the assessor more aggressively use existing authority to request owners of commercial/industrial and apartment properties to submit income and expense data to the assessor's office.

The assessment manuals issued by the State Department of Assessments and Taxation and used as guides by the local assessment offices cover only the cost of replacement approach and ignore the sales and income approaches. We recommend that the State assessment manuals include definitions and procedures for the sales and income approaches to assessment, as well as the cost of replacement approach, or that at a minimum, the manual specify procedures or reference documents to be used in making appraisals using the sales and income approaches.

The State manuals are in limited supply and are available to the public for review only at the Supervisor's office during office hours. The residential volume is also available in the public libraries. A revised residential manual is currently being field tested but the Task Force has not had an opportunity to review it. We recommend that both the assessment manuals, and the directives of the State Department of Assessments and Taxation relating to methods for assessing property, be made available to the public in the Supervisor of Assessments' offices and in public libraries.

The so-called "allowance for inflation," that is set by the Governor with the approval of the General Assembly at some proportion of market value, in fact has little to do with inflation. At present, while real property is assessed at 50 percent of market value, personal property is assessed at 100 percent of market value. Changes in the inflation allowance have the practical consequence of altering the assessable base against which the local tax rate is applied. The perceived relief to the taxpayer that results from a reduction in the level of assessment is generally illusory, since it is typically offset by an increase in the property tax rate. We believe the assessment level as a proportion of market value should remain constant so that taxpayers can better understand the relationship between the assessment and the tax rate, and not be

misled into thinking that a reduction in assessments will necessarily result in a reduction in property taxes.

There is continuing discussion of the relative merits of annual reassessments versus reassessments every second or third year. The principle that assessments for all properties should be as uniform as possible is not well served by raising assessments on different properties in different years. In order to minimize the lack of uniformity among properties and to prevent sudden, large assessment increases, we recommend that all properties continue to be reassessed on an annual basis.

#### Improving Methods and Procedures

Judgment will always be required in making assessments, since formal methods and procedures cannot anticipate every detail required in property valuation. However, we recommend that the County Supervisor of Assessments use objective statistical techniques for the appraisal process, document the range of possible appraisals for each property, and make explicit the nature and effect of judgments made by the assessor in arriving at a final assessment.

In particular, we believe that there is sufficient experience with computer-assisted appraisal to demonstrate its usefulness in narrowing the range of assessor judgment, improving the quality of judgments by giving the assessor more useful information, increasing the accuracy of assessments, and exhibiting the data for later evaluation and review by taxpayers themselves. Fairfax County, Virginia, for example, currently uses a computer-based model that provides the assessor with three different methods of estimating the value of residential property: cost of construction, sales and trend analysis. Each of the three estimates is clearly presented on the property worksheet, with the assessor's final assessment. Not only has this method proven helpful to assessors, but it has also assisted taxpayers in understanding the way in which their property was assessed, and generally has resulted in more accurate assessments that are more readily accepted by taxpayers.

We recommend that Montgomery County be provided with a more effective, computer-based system that would provide alternative valuations for each property -- including the cost of replacement, sales and trend analysis -- to aid the assessor in making more accurate and uniform assessments, and to facilitate understanding and review by the taxpayer. The computer system should also be used to index assessments using the latest available sales data so that uniformity is established as close to the date of finality as possible. We would prefer that the State Director of Assessments

and Taxation plan, implement and fund such a system in the near future. If the State cannot or will not do this, we believe the County should be enabled to develop such a system on a cooperative basis with the Office of Assessments and Taxation, using supplemental funding provided by the County.

The Task Force has not undertaken a detailed analysis of the cost of developing and operating a fully computerized assessment system, although experience in other jurisdictions (such as Fairfax County, Virginia, and San Mateo County, California) indicates that it is well within the range of reasonable cost, especially when compared to the benefit of improved accuracy and equity of assessments. Development costs for Montgomery County may be less than for those jurisdictions that undertook their own development, since presumably Montgomery County could benefit from the experience and technique already developed elsewhere. There is some evidence that use of the computerized system may be cheaper than manual assessments, in part because it reduces staffing needs, and in part, because improved equity tends to reduce appeals which consume assessor time.

Individual assessment offices and individual assessors are currently permitted substantial latitude in applying State guidelines in valuing different properties. Under the computerized system we are proposing, guidelines would be clearer and the range of judgment narrowed. In the meantime, we recommend that the assessor retain, along with his sales analysis, a record of the analysis leading to his decision to depart from the factors prescribed in the manual and an identification of the properties (or types of property) to which the adjusted factor was applied.

The Montgomery County assessment office currently lacks the specialized staff required to adequately assess commercial and industrial properties, and to effectively defend their assessments in appeals brought by commercial and industrial property owners. The assessment office presently has only four C.A.E. assessors, and has not hired a new C.A.E. assessor for several years. By contrast, the Fairfax County assessment office employs five M.A.I. assessors to work in the area of commercial and industrial assessment. We recommend that increased resources be allotted for training of the existing staff and for the addition of specialized staff so as to improve its ability to assess commercial and industrial property.

#### Strengthening Management

Numerous small steps are required to improve the administration of assessments. The only way that range of improvements can be

made -- and continually pursued in detail -- is through effective management.

Responsibility for assuring effective management lies with the Governor and State Legislature. In the past, State leaders have not shown great interest in providing the resources, incentive, and oversight to assure high performance in the Department of Assessments and Taxation. The tendency rather has been to suggest changes that may be politically popular but have little effect in correcting assessment inequities, and may even create greater problems. We are hopeful that continued public concern will induce State elected officials to concentrate on the real problems of property assessment administration, and we are encouraged by some signs that State officials are beginning to grapple with the hard questions.

While a substantial minority of the Task Force favored returning the operation of the assessment system to the County government, a majority felt that the State should continue to operate the system, but with greater aggressiveness to raise performance. Even though the Task Force concluded that responsibility for assessments should remain with the State, we recommend that steps also be taken to give the County government a more direct influence in the assessment system to assure continual improvement in equity. To this end we suggest the following actions be considered:

- That the County government develop and maintain an effective capability to analyze and periodically report on assessment/sales ratios and other data that reflect the accuracy and equity of the assessment system.
- That the County government submit an annual evaluation of the assessment process to the Montgomery Supervisor and the State Director, and that each of these officials be required by law to comment on the County report and to specifically indicate what action will be taken on proposed recommendations.
- That the County government consider, and appropriate State authorization be given, to permit the County to work with the State's Montgomery County assessment office to achieve the highest possible level of assessment performance. One approach, as noted earlier, would be for the County government to provide assistance in developing the capacity for more accurate assessments.

We recognize that no one of these actions will give the County government actual authority to make changes in the assessment system, but we believe they would strengthen the ability of the County to press for, and assist in achieving, needed improvements and to monitor the State's actions toward greater accuracy and equity of assessments.

Under the current structure of the State Department of Assessments and Taxation, the Montgomery County Supervisor (as is true of his counterparts in other jurisdictions) retains a substantial degree of autonomy from the State Director. This autonomy results in part from the ambiguity of State law, the tradition of County autonomy that dates from the time when counties operated their own assessment systems independent of the State, and the special case of Montgomery County which is perceived as one of the better assessment offices in the State. In his effort to improve assessment administration throughout the State and to achieve greater uniformity of assessments among jurisdictions, the State Director of Assessments and Taxation has understandably directed the greater part of his attention to those assessment divisions considered to be substandard. There is a danger, however, that property assessment in Montgomery County may suffer as a consequence in two respects.

First, while the State's assessment office in Montgomery County may be above average for the State and even for the nation as a whole -- and while by some indications its assessment accuracy has improved over time -- the office has not achieved the highest standards of assessment practice that have been demonstrated to be feasible in jurisdictions around the country. Nor has the Montgomery County office achieved the rate of improvement we believe is desirable. One reason for the failure to keep pace with modern assessment practices is lack of support from the State Director for performance standards, and supporting resources, above the mediocre statewide level. For example, the State Department of Assessments and Taxation is in the process of implementing a uniform assessment system statewide that falls far short of the latest available assessment techniques and technology, but is geared to raise the level of the low-performance local assessment offices. It may be that the most modern approach would not be the most cost-effective approach for some local offices given their size and administrative capacity. We do not believe, however, that the potential of the State office in Montgomery County should be sacrificed for the purpose of achieving a uniform but mediocre standard statewide. We would be concerned further that locking Montgomery County into the statewide uniform system may further retard its progress as assessment practices advance nationwide even beyond the standard

they have reached today. We urge the State Director to take steps to assure that each division of his Department, including the Montgomery County office, achieve its highest potential of performance, and that statewide standards for assessment procedure be tailored so as not to prevent or discourage the Montgomery County office, or other local offices, from employing the most advanced assessment techniques and technology.

A second problem with the State structure is that in an effort to achieve uniformity of assessments throughout the State, the State Director of Assessments and Taxation as late as 1976 issued instructions that jurisdictions with (assessment/sales) ratios above or below the average for the State should take corrective action to bring their ratios more in line with the State average. We fully support the emphasis on achieving greater uniformity of assessments statewide. We are concerned, however, that achieving uniformity by moving toward average performance would mean lowering the standards of the better performing divisions, thereby causing additional distortions and confusion, and a relaxation of pressure on the Montgomery County office to move toward the highest performance of which it is capable. We recommend that the State continue its effort to achieve uniformity of assessment among jurisdictions throughout the State; however, we believe it would be preferable to urge all divisions to move toward the highest standards of performance rather than toward an average or mediocre standard. We further recommend that for purposes of levying the State property tax and determining distribution of State grant funds, adjustments in the property base be made to fully account for the lack of uniformity of assessments of the State's subdivisions.

The conversion of the assessment system to State control in 1975 has significantly reduced the salary which can be paid to assessors in the Montgomery County office. While assessors who were formerly on the County payroll are protected, new assessors are paid on a State salary scale which is about 25 percent below salaries for comparable work paid by the Montgomery County government. As time goes on, the calibre of personnel attracted by the assessors office will be well below the norm within the County. To remedy this, the Task Force recommends that the County Delegation introduce legislation supporting pay differentials among different counties, so that assessors and other personnel in like positions can afford to live in the counties where they are assigned to work.

There is also a need to reward superior performance within the assessment office by providing avenues for professional and managerial growth. The present structure of the office provides almost no opportunity to do this. We recommend that the State Secretary of Personnel (1) establish a pay increase differential for assessors

handling such specialized functions as commercial, personal property and farm assessments, and (2) establish an intermediate managerial position between the present Assessor III and Field Supervisor positions.

### Evaluating Performance

Improved evaluation of the overall assessment system should proceed on three levels. First, the Montgomery County Supervisor of Assessments should assess the accuracy and uniformity of assessments as of the date of finality, using a widely accepted method of statistical evaluation, and should issue annually a report on patterns of assessment changes and assessment accuracy and uniformity among classes of property, districts, and subdivisions. The local office currently does not generate the data, nor does it use the techniques or technology, that are available for more precise evaluation of assessment and correction of inaccuracies. The Task Force has suggested a set of evaluative criteria in the computer program developed with the County government's Management Information Service. We believe these criteria provide a beginning for more effective evaluation of assessments.

Second, the State Department of Assessments and Taxation should place greater emphasis on developing the capability and providing the incentive for more effective evaluation of County assessments.

Third, the Montgomery County government should regularly evaluate assessments to determine their accuracy and uniformity, identify problems, keep County citizens informed as to the equity of assessments, and recommend corrective actions to the State. Ideally, the County government's role would be limited to monitoring the evaluations of the State Department of Assessments and Taxation and its local office in Montgomery County, assuming the assessment office adopts our recommendation for improving its own evaluation. Should the State not adopt our recommendation, we would urge the County government to use the computer program (with additional refinements suggested in the full Task Force report) developed by the Task Force with the Management Information Service.

## The Appeal Process

One of the most important ways to discover and correct inaccuracies or errors in assessments is through individual taxpayer appeals. Many assessment problems are resolved informally by discussion between assessors and property owners. The assessment appeal process begins with a formal protest by the taxpayer to the Montgomery County office of the State Department of Assessments and Taxation. From there an appeal can be pursued to the Property Tax Assessment Appeal Board (PTAAB), which is also a State body. Further appeals go to the Maryland Tax Court, which is an administrative body, and then to the Circuit Court, and the Court of Appeals.

The assessment appeal process is widely misunderstood by the public. There are about 5,000 residential protests per year (a 75 percent increase since the shift from triennial to annual assessments, part of which may also be attributed to rapid inflation in residential values) and about 500 commercial protests per year. According to the assessors and other officials involved in the appeal process, a substantial minority of those protesting either are generally concerned about tax increases, or do not understand the distinction between the property assessment and the property tax rate. Many, as a result, spend a great deal of their time and of the assessor's time in protests and appeals that have virtually no chance of resulting in a reduction in assessment. The time spent by assessors on appeals and appeal-related property owner inquiries detracts from their time for regular assessment activities.

In order to minimize fruitless citizen protests and to enhance the ability of taxpayers to more effectively appeal legitimate grievances, the Task Force recommends: 1) continuation of the recently instituted procedure of making the applicable residential sales analysis available to a property owner upon request; 2) release of stated reasons for assessment reduction before PTAAB and Tax Court; 3) report of reason for assessment change; 4) extension of the appeal period from 30 to 45 days after notice of assessment; and 5) provision of assessment interpretation aid to property owners by a paraprofessional located within the Supervisor's office.

The residential property owner tends to be at a disadvantage in appealing his or her assessment. The principal reason for this is that appellants are expected to show that their assessment exceeds 50 percent of the present value of the property. Since the assessor bases his assessment on sales which take place 12 to 30 months prior to the effective date of the assessment (the date of finality), properties at the time of appeal are, on the average, assessed well below 50 percent of their current market value. The average current assessment/sales ratio for properties sold in 1977, as noted earlier, was 41 percent. Thus an individual property could have been assessed almost 25 percent above the average<sup>10</sup> and still not exceed 50 percent

<sup>10</sup>An assessment of .50 is 25 percent higher than an assessment of .40.

of its value during the levy year. The assessor can defend against the appeal of the assessment of such properties by showing that, based on recent comparable sales, the assessment is below 50 percent of current market value. Thus, the appeals process works to correct only the most blatant relative inequities. In the long run, techniques to bring the assessed values closer to the actual values as of the date of finality should reduce this problem. In the interim, as a partial solution, the Task Force recommends that the assessor be limited in defense of his assessment to sales in the base period used to establish the original assessment.

The appeal process should also serve as a means for testing and improving the methods used for assessment. However, at present there is no systematic effort to learn and generalize from the cases of successful appeal to correct for similar errors that may be present in the assessment process. The Task Force recommends systematic assemblage, organization by property class and reason for appeal, and evaluation and feedback into assessment and appeal processes of the results of appeals, and publication annually of a report of these results in terms of numbers of appeals, amount of assessment and percent of assessment change, and assessment subdivision, and that adequate staff be provided for these tasks.

The appeal process provides for appellants and the assessors to proceed through two administrative bodies, the PTAAB and the Maryland Tax Court. Appeal of properties of relatively low value are generally resolved by the PTAAB. Properties of higher value, which most often tend to be commercial/industrial and apartment properties, are more likely to continue on to the Tax Court, where the case is heard *de novo*. We recommend that appeals of properties above a moderate price value -- currently in the above \$150,000 range, although the applicable price range may increase with inflation -- should proceed directly to the Maryland Tax Court. Elimination of the PTAAB appeal for such properties would have the dual value of eliminating one administrative step for such properties, and reducing the burden on the PTAAB to hear more complex and technical appeals for which they have less expertise and experience. The State assessment process might thereby concentrate its resources and improve its ability to handle more complex assessment appeals in the Maryland Tax Court. Alternatively, the PTAAB should strengthen its capacity for dealing with the appeal of more expensive properties. In recommending elsewhere that the Montgomery County Office of Assessments and Taxation strengthen its capacity to assess commercial/industrial and apartment properties, we assume that such added capacity would also be used to more effectively defend its assessments of higher-priced property in the appeals process.

Since it is a rare taxpayer who will protest his assessment on the grounds it is too low, the appeal process traditionally has worked only to reduce assessments found to be too high. Yet under-assessed property is a major source of inequity since it results in other property owners paying a disproportionate share of taxes. To correct this imbalance, the County Council created the Office of the Public Advocate for Assessments and Taxation to appeal underassessed property on behalf of the public. In the first three years of its existence, the Public Advocate's Office has demonstrated both the extent of underassessment of some properties and the potential for correcting them through appeal by the County government. For Levy Year 1976, for instance, the Advocate was responsible for an upward reassessment of \$4.5 million in commercial/industrial property. In the first three years of its existence, actions by the Public Advocate resulted in about \$180,000 in additional annual revenues from under-assessed property, while the Office itself cost only \$50,000 per year.

We believe the validity of the Public Advocate mechanism has been amply demonstrated, but that the potential of the Office is far from fully developed. The Office should have additional statistical capability to more comprehensively evaluate assessments, additional staff to vigorously identify and appeal underassessments, and funds to hire professional appraisers to assist with the evaluation of commercial/industrial property assessments.

The name "Public Advocate" has caused some confusion among taxpayers who assume the Office was established to assist them in their appeals. That is not the principal mission of the Office (although it does provide information about appeal procedures to individual taxpayers upon request) and the name should, therefore, be changed to lessen the misunderstanding. We recommend the name of the Public Advocate be changed to the Office of Assessment Review, and that it be provided sufficient resources to permit the Office to step up its activities, including continual use and further development of the computer-based evaluation program established by the Management Information Service in conjunction with the Task Force.

#### Informing the Public

Public understanding needs to be improved on several points:

- There is a distinction between the property assessment and the property tax.
- Property assessments are exclusively the responsibility of the State of Maryland, not of the Montgomery County government.

- Few properties can be proved conclusively to be assessed above 50 percent of their market value given the current groundrules by which assessments are made and appealed.
- Inequities result not so much from overassessment (above 50 percent of market value) as from lack of uniformity in assessments among various properties; that is, some taxpayers are paying less than their share as the result of their properties being assessed at a lower effective rate than others.
- Most taxpayer protests of their assessments are futile for two reasons: 1) it is very difficult to prove your property is overassessed; and 2) the protest cannot effectively address the inequity that results from underassessment of other properties.
- Taxpayers should be dissuaded from assessment protests based on a general concern with rising taxes, although they should not be discouraged from appealing assessments which do not reflect market value, or are based on error.
- There are problems with the assessment system that should and could be corrected. However, the State government is responsible for property assessments, and consequently, citizen attention and action should be focused on State officials and the County's legislative delegation to Annapolis for needed changes.

In order to improve public understanding of the assessment process, we recommend that a pamphlet be prepared by the County government explaining property tax assessment and appeal procedures in layman's terms. The Task Force has prepared an outline for such a pamphlet. The State or the County government should also consider establishing brief classes or programs or other forms of public presentation to more fully inform the public about property assessment.

#### Future Work of the Task Force

This report represents a summary of the findings and recommendations of the Task Force to date. The more extensive analysis on which it is based will be released as a separate volume. We believe the detail of information and recommendations contained in the larger volume will prove useful in clarifying how the system operates and suggesting ways in which it could be improved. The full report includes chapters on:

- Assessment law and standards
- Analysis of the accuracy and equity of assessments
- Methods and procedures used in assessment
- Operation of the office of assessments
- Appeal process
- Policy considerations of assessment and property taxation

### Conclusion

The system of property assessment, as it is operated by the State in Montgomery County, may compare reasonably well with the average assessment system around the State and nation, but it falls short of the system it could be. There are numerous reasons for the deficiencies we found, not least of which is the public's unwillingness to accept the margins of error, ambiguity, and assessor judgment that it may not have questioned in the past. We believe many improvements can be made simply by pointing them out; the assessment office desires to perform its job well, and wants to be perceived by the public as a fair and professional operation. Other improvements, however, will require stronger action since they may encounter resistance from the many interests -- including those at the State and County levels and taxpayers themselves -- who tend to benefit from inequities or longstanding modes of operation in the current system.

Part of the problem lies in the lack of clear accountability for performance of the assessment system. The County Council took the initiative to establish this Task Force, yet the Council has no direct authority for property assessment. We strongly encourage the State government to take the actions we recommend for improvement, and urge the County Council to continue its leadership, and the County Executive to use the formidable powers of his office, in pressing for a more equitable assessment system.

In the end, however, change will result principally in response to the public's demand for it. We hope this report will help citizens better understand how the assessment process works, where action should be directed for maximum impact, and to what extent concern about assessments reflects a deeper frustration with government cost and performance.

PROPERTY ASSESSMENT IN MONTGOMERY COUNTY

FINAL REPORT  
OF THE  
MONTGOMERY COUNTY COUNCIL'S  
TASK FORCE ON REAL PROPERTY ASSESSMENT PRACTICES

NOVEMBER 1978

Maryland Municipal  
Rockville Library

2



*Task Force on Real Property Assessment Practices*

## MONTGOMERY COUNTY, MARYLAND

100 MARYLAND AVENUE, ROCKVILLE, MARYLAND 20850 • 301 279-1231

Scott Fosler, Chairman

15 November 1978

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The Honorable Elizabeth L. Scull, President  
Montgomery County Council  
100 Maryland Avenue  
Rockville, Maryland 20850

Dear Mrs. Scull:

Attached is the Final Report of the Task Force on Real Property Assessment Practices. This completes the work of the Task Force.

While assessment is not an exact science, and while assessments in Montgomery County may be more equitable than in many other jurisdictions, inequities do exist which could be corrected. Unfortunately, most of the necessary steps require action by the State since the County has little control over the State Department of Assessment and Taxation. For this reason, we recommend that this report be transmitted to the State Director of Assessments and Taxation, and to the members of the Montgomery County Delegation to Annapolis, as well as to the members of the County Council, to the County Executive, and to the Supervisor of Assessments for Montgomery County.

The report reflects the hard work, persistence and cooperation of the members of the Task Force, and the able leadership of Scott Fosler, who led the effort from its beginning in April, 1977 until August, 1978. The Task Force, in turn, had the full cooperation of all the public agencies and officials involved in the assessment process: the State Department of Assessment and Taxation, and its Supervisor of Assessments for Montgomery County; the Property Tax Assessment Appeal Board; the County Public Advocate for Assessments and Taxation; Department of Finance; Management Information Service; and the County Attorney's Office. People to whom we are grateful for their special assistance include: E. E. Rhinehart, Computer Systems Team Leader, Management Information Service; Dr. Ira Epstein, Urban Economist, Research Division, Maryland National Capital Park and Planning Commission; Lawrence Ford, Systems Analyst, Office of Research and Statistics, Fairfax County; and the Council Staff with special assistance from Joanne Jacka, Catherine Stover, and Charles Marsteller.

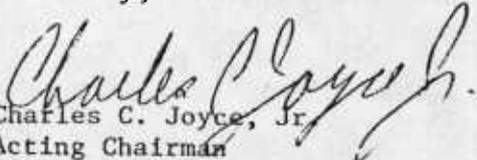
The Honorable Elizabeth L. Scull  
Page 2

15 November 1978

We are also specially indebted to Councilman Neal Potter for giving us his time and expertise.

The Task Force believes the citizens of Montgomery County can be confident that this report represents a careful and objective review of property assessment in Montgomery County.

Sincerely,

  
Charles C. Joyce, Jr.  
Acting Chairman  
Task Force on Real Property  
Assessment Practices

khj

Attachment

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TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION AND SUMMARY	I-1
A. Introduction	I-1
B. Assessments in Perspective	I-2
C. The Property Assessment System	I-4
D. Methods of Assessment	I-6
E. Extent of Inequity in Assessments	I-9
F. Possible Sources of Inequity	I-19
G. Recommendations	I-20
H. Conclusion	I-38
II. ASSESSMENT LAW AND STANDARDS	II-1
A. Legal and Judicial Bases for Real Property Assessment in Maryland	II-1
B. Implementation and Interpretation of Assessment Law	II-10
C. Standard Appraisal Approaches and their Relationships to Assessment	II-15
III. ACCURACY OF ASSESSMENTS	III-1
A. Introduction	III-1
B. Information and Availability	III-2
C. Problems with the Present Computer Usage and Other Reporting Methods	III-2
D. Accuracy and Equity of Assessments	III-5
IV. ASSESSMENT METHODS AND PROCEDURES	IV-1
A. Residential	IV-1
B. Commercial	IV-16
C. Apartments	IV-18
D. Condominiums	IV-19
E. Farmland	IV-21
F. Use of Information Technology	IV-21
V. ORGANIZATION AND MANAGEMENT	V-1
A. The Role of the State	V-1
B. Relationships to County Government	V-4
C. Management Improvement	V-6
D. Organization and Staffing of the County Office	V-7
E. Operating Procedures	V-12
F. Evaluation of Performance	V-13

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION AND SUMMARY	I-1
A. Introduction	I-1
B. Assessments in Perspective	I-2
C. The Property Assessment System	I-4
D. Methods of Assessment	I-6
E. Extent of Inequity in Assessments	I-9
F. Possible Sources of Inequity	I-19
G. Recommendations	I-20
H. Conclusion	I-38
II. ASSESSMENT LAW AND STANDARDS	II-1
A. Legal and Judicial Bases for Real Property Assessment in Maryland	II-1
B. Implementation and Interpretation of Assessment Law	II-10
C. Standard Appraisal Approaches and their Relationships to Assessment	II-15
III. ACCURACY OF ASSESSMENTS	III-1
A. Introduction	III-1
B. Information and Availability	III-2
C. Problems with the Present Computer Usage and Other Reporting Methods	III-2
D. Accuracy and Equity of Assessments	III-5
IV. ASSESSMENT METHODS AND PROCEDURES	IV-1
A. Residential	IV-1
B. Commercial	IV-16
C. Apartments	IV-18
D. Condominiums	IV-19
E. Farmland	IV-21
F. Use of Information Technology	IV-21
V. ORGANIZATION AND MANAGEMENT	V-1
A. The Role of the State	V-1
B. Relationships to County Government	V-4
C. Management Improvement	V-6
D. Organization and Staffing of the County Office	V-7
E. Operating Procedures	V-12
F. Evaluation of Performance	V-13

TABLE OF CONTENTS (Continued)

	<u>Page</u>
VI. PROPERTY ASSESSMENT APPEALS	VI-1
A. Due Process and the Appeal Process	VI-4
B. Public Acceptance	VI-9
C. Assessment Testing	VI-11
D. Specific Assessment	VI-13
E. Error Correction	VI-14
F. Who Appeals, To Whom, and With What Results	VI-15
G. The Property Owner and Appeals	VI-19
H. The Assessor and Appeals	VI-22
I. Property Tax Assessment Appeal Board (PTAAB)	VI-23
J. The Maryland Tax Court	VI-26
K. The Public Advocate for Assessments and Taxation	VI-27
L. Assessment Methods and Appeals	VI-34
VII. POLICY ISSUES	VII-1
A. Introduction	VII-1
B. Totally Exempt Property	VII-2
C. Farmland Preferential Assessment	VII-3
D. Citizen Relief	VII-5
APPENDIX A: REVIEW OF APPRAISAL MANUAL FOR MARYLAND ASSESSORS	A-1
APPENDIX B: SURVEY OF RESIDENTIAL AND COMMERCIAL PROPERTY ASSESSORS' ROLE IN THE APPEALS PROCESS	B-1
APPENDIX C: SURVEY OF RESIDENTIAL PROPERTY OWNERS WHO HAD APPEALED BEFORE THE PROPERTY TAX ASSESSMENT APPEAL BOARD (PTAAB)	C-1
APPENDIX D: ASSESSMENT HANDBOOK FOR RESIDENTIAL PROPERTY OWNERS HOW IT IS DONE -- HOW TO APPEAL	D-1

## PRINCIPAL FINDINGS AND RECOMMENDATIONS

Property taxes have increased faster than the cost of living in Montgomery County because as assessments have risen in response to increasing property values, there has been no corresponding reduction in the property tax rate. This situation has raised three types of concerns.

First, rising property taxes are burdensome to all who pay them. The increasing tax burden on property owners results both from the need for government to raise revenue to finance the increasing cost of government, and from the proportionate share that property taxes represent of all revenue sources. The rising cost of government can only be curbed by reducing the level of government services, or improving the management of resources. The proportionate share of the cost of government borne by the property taxpayer can only be reduced by shifting part of the tax burden to other sources of revenue.

Second, some property owners are suffering an inordinate burden because their property taxes consume so high a proportion of their income. The Task Force recommends this problem be addressed in part through extension of the property tax circuit breaker.

Third, there is concern that property assessments are not equitable. The Task Force concluded that while assessments in Montgomery County may be more equitable than in many other jurisdictions, inequities do exist that could be corrected. The Task Force was requested by the County Council to direct its attention principally to this question.

There are several types of assessment inequities:

- While nearly all properties are assessed below the percentage of market value required by State law, all properties are not assessed at uniform rates.
- Properties in various geographical areas of the County tend to have varying rates of assessment.
- Assessment rates can differ between higher-priced and lower-priced property.
- Assessment rates tend to vary among different categories of properties.

While the inequities on the average are not enormous, some are sufficiently large that they should be, and could be, corrected. One of the principal reasons for perceived inequities is that public standards of fairness in assessment have become more demanding as assessments and property taxes have risen. Consequently even if assessments have become more accurate and equitable over the years, the public's desire for equal assessment and smaller margins of error has become even more exacting.

Since property assessment in Montgomery County is the responsibility of the State of Maryland, most of the actions that can be taken to improve the assessment system must be initiated by the State government. The Task Force believes that a series of actions is required, and recommends specific changes in several areas. Some of these recommendations, which were first published in March 1978, have since been enacted into law as indicated.

#### Clarifying Standards

- that income capitalization be one of the approaches used to determine assessments for commercial/industrial as well as apartment properties.

- that corrective measures should be used to assure that assessments of commercial/industrial and apartment properties do not result in disproportionately lower assessment ratios than apply to residential properties that are assessed by the sales method.
- that the assessor more aggressively use the authority to request owners of commercial/industrial and apartment properties to submit income and expense data to the assessor's office. (Authority strengthened in 1978 by SB 660)
- that the State assessment manuals include definitions and procedures for the sales and income approaches to assessment, as well as the cost of replacement approach, or that at a minimum, the manual specify procedures or reference documents to be used in making appraisals using the sales and income approaches.
- that both the assessment manuals and the directives of the State Department of Assessments and Taxation relating to methods for assessing property, be made available to the public in the Supervisor of Assessments' offices and in public libraries. (Implemented in 1978 by SB 907)
- that the assessment level as a proportion of market value should remain constant so that taxpayers can better understand the relationship between the assessment and the tax rate, and not be misled into thinking that reduction in assessments will necessarily result in a reduction in property taxes.
- that all properties continue to be reassessed on an annual basis.

#### Improving Methods and Procedures

- that the County Supervisor of Assessments use objective statistical techniques for the appraisal process, document the range of possible appraisals for each property, and make explicit the nature and effect of judgments made by the assessor in arriving at a final assessment.
- that Montgomery County be provided with a more effective, computer-based system that would provide alternative valuations for each property -- including the cost of replacement, sales and trend analysis -- to aid the assessor in making more accurate and uniform assessments, and to facilitate understanding and review by the taxpayer. The computer system

should also be used to adjust all assessments using the latest available sales data so that uniformity is established as close to the date of finality as possible. We would prefer that the State Director of Assessments and Taxation plan, implement and fund such a system in the near future. If the State cannot or will not do this, we believe the County should be enabled to develop such a system on a cooperative basis with the Office of Assessments and Taxation, using supplemental funding provided by the County.

- that the assessor retain, along with his sales analysis, a record of the analysis leading to his decision to depart from the factors prescribed in the manual and an identification of the properties (or types of property) to which the adjusted factor was applied.
- that increased resources be allotted for training of the existing staff and for the addition of specialized staff so as to improve its ability to assess commercial and industrial property.

#### Strengthening Management

- that the State Director take steps to assure that each division of his Department, including the Montgomery County office, achieve its highest potential of performance, and that state-wide standards for assessment procedure be tailored so as not to prevent or discourage the Montgomery County office, or other local offices, from employing the most advanced assessment techniques and technology.
- that the State continue its effort to achieve uniformity of assessments among jurisdictions throughout the State; however, we believe it would be preferable to urge all divisions to move toward the highest standards of performance rather than toward an average or mediocre standard. We further recommend that for purposes of levying the State property tax and determining distribution of State grant funds, adjustments in the property base be made to fully account for the lack of uniformity of assessments of the State's subdivisions.
- that steps also be taken to give the County government a more direct influence in the assessment system to assure continual improvement in equity.
- that the County Supervisor establish an annual assessment system improvement process.

- that the County Delegation introduce legislation supporting pay differentials among different counties, so that assessors and other personnel in like positions can afford to live in the counties where they are assigned to work.
- that the State Secretary of Personnel (1) establish a pay increase differential for assessors handling such specialized functions as commercial, personal property and farm assessments, and (2) establish an intermediate managerial position between the present Assessor III and Field Supervisor positions.

#### Evaluating Performance

- that the Montgomery County Supervisor of Assessments should assess the accuracy and uniformity of assessments as of the date of finality, using a widely accepted method of statistical evaluation, and should issue annually a report on patterns of assessment changes and assessment accuracy and uniformity among classes of property, districts, and subdivisions.
- that the State Department of Assessments and Taxation should place greater emphasis on developing the capability and providing the incentive for more effective evaluation of County assessments.

#### The Appeal Process

- (1) continuation of the recently instituted procedure of making the applicable residential sales analysis available to a property owner upon request; (2) compilation and publication of stated reasons for assessment reduction before PTAAB and Tax Court; (3) report of reason for assessment change; (4) extension of the appeal period from 30 to 45 days after notice of assessment; and (5) provision of assessment interpretation aid to property owners by a paraprofessional located within the Supervisor's office.
- that the assessor be limited in defense of his assessment to sales in the base period used to establish the original assessment.
- the systematic assemblage, organization by property class and reason for appeal, and evaluation and feedback into assessment and appeal processes, of the results of appeals; and publication annually of a report of these results by subdivision in terms of numbers of appeals, amount of assessment

and percent of assessment change; and that adequate staff be provided for these tasks.

- that the name of the Public Advocate be changed to the office of Assessment Review, and that it be provided sufficient resources to permit the Office to step up its activities, including continual use and further development of the computer-based evaluation program established by the Management Information Service in conjunction with the Task Force.

#### Informing the Public

- that a pamphlet be prepared by the County government explaining property tax assessments and appeal procedures in layman's terms.

The Task Force believes there is a genuine desire on the part of all involved in the assessment process to achieve the highest degree of equity possible. We hope our report will provide a guide to cooperative and constructive action toward that goal.

## CHAPTER I

### INTRODUCTION AND SUMMARY

#### A. Introduction

The Task Force on Real Property Assessment Practices was created by the County Council to identify any inequities in the assessment system, and, if discovered, to recommend ways of correcting them. The Task Force has concluded that there are inequities in property assessment in Montgomery County; some are the inevitable consequence of the limits to the precision of assessment standards and appraisal techniques, while others are subject to correction through more effective operation of the State assessment system.

Measured against the standards of the past and the average quality of property assessment nationwide, the assessment system administered by the State of Maryland in Montgomery County probably compares favorably. Compared, however, to the higher standards of accuracy and equity now demanded by taxpayers, and to the superior quality of property assessment achieved by the nation's best assessment systems using up-to-date techniques, the assessment of property in Montgomery County could be substantially improved.

The first step toward achieving the standards we believe both desirable and possible is for all interested parties -- taxpayers, State assessment officials, County officials, and others -- to recognize that improvement will require numerous modifications rather than one or two major changes. To achieve these modifications in a coordinated fashion

will require cooperation. We believe there is a genuine desire on the part of all parties to improve the practice of property assessment in Montgomery County. We offer the following analysis and recommendations as a guide to this cooperative action. Some of those recommendations, which were first published in March, 1978, have since been enacted into law as indicated.

#### B. Assessments in Perspective

The public perception that property assessments have risen at extraordinarily high rates in recent years is accurate. Between 1972 and 1977 assessments on existing residential property increased by 102 percent while the Consumer Price Index rose 48.9 percent.<sup>1</sup> There is widespread misunderstanding, however, as to the relationship between assessments and property taxes. Assessments have increased because the property values, on which assessments are based, have risen. Property taxes have increased because as assessments have gone up there has been no offsetting decrease in the property tax rate.

All too often, the assessor -- whose job is simply to determine the value of property -- is a visible and convenient target for general complaints about taxes, inflation, and the cost of government over which he has no control. The appropriate question to raise with the assessor is whether assessments are accurate and equitable.

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<sup>1</sup>Ira Epstein, Analysis of Growth in Montgomery County Real Property Tax Base, FY 1967-1968 to FY 1976-1977, Montgomery County Planning Board, August 1977, p. 16. Calculations were made by Dr. Epstein based on data in Table 7.

The growing perception of inequity in assessments is partly attributable to the public's unwillingness to accept margins of error or assessor judgment that have been accepted in the past. When assessments rise, perceived inequities become more obvious and more onerous. Public standards and scrutiny of the assessment process have outpaced improvements in the precision of assessment in Montgomery County.

No matter how much assessment practices may have improved in Montgomery County in the past, and no matter what degree of inequity may persist in the future as a consequence of the limits to assessment accuracy, the first order of business is to assure that property assessment is as accurate and equitable as possible through the use of the best available assessment practices, and to assure the public that every effort is being made to achieve the fairest possible system of property assessment.

Achieving equity in assessments will not reduce the overall tax burden required to fund the current level of government. That can only be accomplished by restraining the cost of government.

Nor will equitable assessments necessarily provide relief to those citizens whose property tax burden has risen substantially faster than their incomes. Such relief will require more direct action. We support relief for hardpressed property taxpayers, especially those on modest incomes who are compelled to pay an inordinate proportion of their income in housing costs, which include property taxes. Whatever action is taken, however, to lessen the burden on specific classes of property taxpayers should not impede the professional determination of accurate and equitable

assessments. Legislative actions that divert the assessor from determining the actual market value of property do a disservice by imposing distortions and compounding, rather than correcting, assessment inequities. As a means of providing direct relief to property owners who have been hardest hit by rising assessments, we recommend extension of the property tax circuit breaker to all age groups that qualify under established income and net-worth criteria.

The Task Force focused its attention on ways to assure that property assessments are as equitable as possible. With a clear understanding of the role of assessments in determining property taxes, and with confidence that property is equitably assessed, the public and government officials should be better able to address the separable question of how to relieve the burden on property taxpayers through changes in tax rates.

C. The Property Assessment System

The property tax is presently the single most important source of revenue for the County government. It generated an estimated \$203.8 million for the Montgomery County government in FY 1977, or about 42 percent of total County government revenues. The County income tax, by comparison, produced an estimated \$80 million in the same year, or about 12 percent of County revenue. The real property assessable base in Montgomery County was \$5.6 billion in 1977.<sup>2</sup> Real property accounts for about

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<sup>2</sup>Statistical Profile of Montgomery County, Montgomery County Government, p. 9-8.

88 percent of total assessable base; personal property accounts for the other 12 percent, a share that has slipped from about 14 percent in 1968.<sup>3</sup>

The distinction between property assessments and property tax rates should be made clear. The assessment is the estimated "full cash value" -- or market value of the property minus a percentage known as the "inflation factor." The inflation factor has been 50% in recent years, but in 1978 it was increased to 55% for owner occupied residences only. The property tax rate is the amount each property owner must pay for every \$100 of assessed value.

Assume, for example, a non-residential property is determined to have a market value of \$50,000 and the tax rate is set at \$4.00 per \$100 of assessment. The actual tax paid would be the following:

Estimated market value or valuation	\$50,000
Minus 50 percent	<u>25,000</u>
Assessment	\$25,000
Tax rate	x \$4.00 (per \$100 of assessment)
Tax	\$1000.00

The assessment of property in Montgomery County is the responsibility of the State of Maryland. The State Department of Assessments and Taxation maintains an office in Rockville known as the Office of the Supervisor of Assessments for Montgomery County, which assesses all property in

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<sup>3</sup> Ira Epstein, op. cit., p. 2

Montgomery County according to State law and State guidelines, and is completely independent of the County government. Any changes in the assessment system must be undertaken by the State.

The assessment established by the State is used as a base against which various tax rates are applied. The principal property tax rate is set by the County government, according to a formula which accounts in part for the type of services received by residents. Additional tax rates are set by municipalities and special tax areas for their residents, and by the State government which currently levies a 20¢ tax per \$100 on all taxable property. All of these property tax rates are combined and collected simultaneously by the County government which distributes the revenues to the various governments that levied the taxes. Thus, while the average property tax rate in 1977 was \$3.93 on each \$100 of assessed value, tax rates applied to individual properties ranged from a low of \$3.34 to a high of \$4.75 depending on the location of property and the services received. The key point, however, is that the tax rates are set independently by taxing authorities, while the assessment of property is undertaken independently by the State.

D. Methods of Assessment

The State assessor uses one or a combination of three methods to determine the "full cash value" of a property.<sup>4</sup>

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<sup>4</sup>More technical definitions of the three methods of determining value are as follows:

"1) Market - An appraisal technique in which the market value estimate is predicated upon prices paid in actual market transactions and current listings, the former fixing the lower limit of value in a static or advancing market (price wise), and fixing the higher limit of value in

- 1) Market or sales - determining how much the property would sell for on the open market by comparing recent sales of comparable properties;
- 2) Income - estimating the value of the property according to the income it generates;
- 3) Cost of replacement - estimating the cost of replacing or reconstructing the "improvements" or buildings.

1. Residential Assessment

In assessing residential property, the assessor uses a combination of the sales and replacement approaches. The overall value of a property is determined by comparison of recent sales of similar properties in the same subdivision, or neighborhood. The overall estimate of value is divided into two parts: the improvement (typically the house and garage), and land.

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a declining market; and the latter fixing the higher limit in any market. It is a process of correlation and analysis of similar recently sold properties. The reliability of this technique is dependent upon (a) the degree of comparability of each property with the property under appraisal, (b) the time of the sale, (c) the verification of the sale data, and (d) the absence of unusual conditions affecting the sale.

- 2) Income - An appraisal technique in which the anticipated net income is processed to indicate the capital amount of the investment which produces the net income. The capital amount, called the capitalized value, is, in effect, the sum of the anticipated annual rents less the loss of interest until the time of collection. The reliability of this technique is dependent upon four conditions: (a) the reasonableness of the estimate of the anticipated net annual income, (b) the duration of the net annual income, usually the economic life of the building; (c) the capitalization (discount rate); and (d) the method of conversion (income to capital).

- 3) Cost of replacement - A method in which the value of a property is derived by estimating the replacement or reproduction cost of the improvements; deducting therefrom the estimated depreciation; and then adding the market value of the land. This approach is based upon the assumption that the reproduction cost now normally sets the upper limit of building value provided that the improvement represents the highest and best use of land."

The value of improvements is estimated by the "cost of replacement" approach. The physical characteristics of each property are determined by a visit to the property by an assessor once every three years and are recorded on an individual worksheet for each property. Such physical inspections are typically brief, taking no more than several minutes, and rarely include an inspection by the assessor inside the dwelling. The assessor estimates the value of each physical feature of the improvement, using cost factors and methods contained in a manual issued by the State assessment office as a general but not binding guide.

The land value is estimated to be the residual, or the difference, between the total value of the property as determined by sales of comparable properties, and the value of improvements as determined by the cost of replacement approach. Land values, however, may be adjusted according to prevailing market values per square foot of similar properties.

## 2. Commercial/Industrial Assessment

Commercial and industrial properties are assessed principally by the cost-replacement method. The sales method is used only to a limited extent since there are few sales of comparable commercial properties in any given year. The income method is rarely used since commercial property owners do not submit -- nor could they be compelled to submit -- the income data needed for such a calculation. However, SB660 which became law in May, 1978, now requires submission of such data.

## 3. Apartment Assessment

Assessment of apartments is determined principally by the income method, along with some sales comparison. About 30 percent of apartment

owners submit income data voluntarily in response to a request from the assessors. These comparative income data are the base used to establish the value of all apartments.

E. Extent of Inequity in Assessments

To what extent is the real property assessment system equitable? By "equity" we mean principally the uniformity of assessments. Under Maryland law uniformity is achieved when every property is assessed at the same proportion of market value. Prior to 1978, all properties were supposed to be assessed at 50 percent of market value on the date of finality (which is January 1st of the levy year). Consequently, while a property assessed at 40 percent is underassessed according to State law and standards, property assessed at 30 percent is not only underassessed but is paying a disproportionately smaller share of taxes than the property assessed at 40 percent, even though both properties are underassessed. Put another way, inequity among property assessments results when properties are assessed at different, or non-uniform, proportions of their respective market values, even if all are assessed at the percentage of market value required by State law.

The term "inequity" in this sense does not refer to property owners whose property tax may consume an inordinately high proportion of their income. Even if assessments were uniform and hence technically "equitable," some property owners may pay a much larger proportion of their income in property taxes than others, to the point that property taxes place a severe and inordinate strain on their budgets. This is a serious problem that needs to be addressed, but it is separable from the more narrow

question of whether properties are assessed at a uniform proportion of market value.

In order to identify any inequities among property assessments in Montgomery County, the Task Force worked with the County Management Information Service to produce a computer-based analysis of most property sales in the County from 1974 to 1977 compared with their assessments.<sup>5</sup> This analysis provides the first comprehensive evaluation of assessment/sales ratios ever done in the County.<sup>6</sup> It was supplemented by other data to determine the extent of inequities in property assessment.

In making this analysis, the Task Force had to face a key decision: what time period to use for identifying sales which are to be compared with the assessment for a particular levy year. The law requires that assessments be set uniformly relative to the value of the date of finality. The assessor, for practical reasons which will be discussed later, makes assessments on the basis of sales which occur 12 to 30 months prior to the date of finality. Yet, most evaluations of assessment systems compare assessments with sales occurring in the year following the date of finality. This last method, the one we chose to use, is really the acid

<sup>5</sup> There are instances where property sales are not conducted at "arms length" and hence the sales price may not reflect "real market value," as for example when a father sells his son a property at a reduced price. The analysis attempts to account for such sales by eliminating assessment/sales ratios greater than 60 percent or less than 20 percent on the assumption that these extremes do not result from inaccurate assessments but unusual circumstances related to the sale of the property.

<sup>6</sup> The assessment/sales, or A/S, ratio is obtained by dividing the assessed value of a property by its sale price.

test of an assessment system. A "perfect score" would require the assessor to project inflation rates an average of six months beyond the date of finality -- something assessors are currently forbidden by law to do. So, under this standard, even an assessment system which established perfect uniformity on the date of finality would exhibit some dispersion due to unequal rates of inflation during the following year. Naturally, a system which establishes uniformity in a period of 12 to 30 months prior to the date of finality would likely produce greater disparities.

Why, then, was this method used, rather than comparing assessments with the sales period used by the assessor in making the assessments? The stringent method was used for two reasons:

- 1) It is a method widely used for overall evaluation of assessment systems.
- 2) We believe that establishing uniformity as of any date or time period prior to the date of finality could result in an inequity by favoring those properties which are appreciating more rapidly. Such properties are assessed lower, relative to all properties, than they would be if assessed on the date of finality as required by law.

We recognize that practical considerations currently limit the ability of the Montgomery County assessor to assess properties as of the date of finality. Further, we recognize that the Montgomery County Assessor has been directed by the State Director to use the earlier time period in establishing uniform assessments. Nonetheless, we feel that the resulting disparities are in fact inequities, and are at least partly

correctable by means which will be discussed later. It should also be stressed that the analysis deals only with properties that sold during the period studied. We believe it is reasonable to assume that these properties in general, and except when specified, tend to be representative of all properties. However, that assumption has not been verified by any test of statistical significance. Consequently, discretion is required in reaching conclusions from these data.

The disparities reflected in the analysis are of several types. First, assessment/sales ratios can vary substantially from property to property. The average A/S ratio for residential properties sold in FY 1977 was 41. About 43 percent of those properties had A/S ratios between 38 and 44, or were reasonably close to the average for all properties.<sup>7</sup> However, 18 percent of the properties had A/S ratios below 38, while 39 percent had A/S ratios above 44. This means that a substantial proportion of properties (the 39 percent with A/S ratios above 44) were assessed at rates that were at least 12 percent higher than another group of properties (the 18 percent with A/S ratios below 38).

Second, assessment/sales ratios can vary from one geographical area of the County to another. Four assessment districts (which correspond to election districts) comprise 75 percent of all residential properties and of properties sold in FY 1977; Rockville (District 4), Bethesda (District

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<sup>7</sup>The standard deviation of the mean for residential properties sold in FY 1977 was plus or minus 5 ratio points above the Countywide mean A/S ratio of 41 for that class of properties. That is, about two-thirds of the properties in that class had A/S ratios between 36 and 46.

7), Gaithersburg (District 9), and Wheaton (District 13). The Bethesda district had an average A/S ratio that was 5 ratio points below that of Gaithersburg residential properties sold in FY 1977. While this means that many of the properties in Bethesda were underassessed compared to properties in Gaithersburg, it is also the case that other properties in Bethesda were overassessed compared to some properties in Gaithersburg.

The disparities are greater if the smaller assessment districts are taken into account. For example, in Gaithersburg, District 9, 58.4 percent of properties had A/S ratios above 44, while in District 2, Clarksburg, only 18 percent of the properties had A/S ratios above 44. In District 3, Poolesville, only 9 percent of the properties had A/S ratios below 38, while in District 11, Barnesville, 60 percent of the properties had A/S ratios below 38.

Third, assessment/sales ratios can differ between higher-priced and lower-priced properties. While the Task Force did not have the resources to analyze these differences in the detail that would be desirable to establish a precise indication of their statistical significance, our judgment is that the assessment process tends to result in a relative disadvantage for some lower-priced properties, and a relative advantage for some higher-priced properties. As can be seen in the table below, there is a small but consistent progression of differences of average ratios that seems to indicate a tendency toward an inverse relationship between the sale price of property and its proportionate level of assessment.

## Residential Sales

<u>Price</u>	<u>Average A/S Ratio (FY 77)</u>
0 - \$ 50,000	43.7
\$ 50,000 - \$ 75,000	42.1
\$ 75,000 - \$100,000	40.9
\$100,000 - \$150,000	38.7
\$150,000 and above	37.4

The differences in average A/S ratios from one price category to the next are so small in fact that they may not be significant. However, the difference between the lowest price category and the highest price category -- the average A/S ratio for the 0-\$50,000 category is 16 percent higher than the average A/S ratio for the \$150,000 and above category -- is sufficiently large as to indicate a problem does exist. Moreover, the fact that the tendency is consistent among all price categories, for all property classifications, and for all the years studied, strongly suggests that the tendency is not simply the result of statistical happenstance.

This does not necessarily mean that owners of lower-priced homes are paying higher taxes than owners of higher-priced homes. Even if a higher-priced home had a lower relative assessment the actual value of assessment may still be higher than those of lower-priced homes, and so the resulting property tax paid would also be higher. Nor would it necessarily follow that poorer taxpayers are thereby subsidizing richer taxpayers; a person with a modest pension living in a higher-priced house that may be relatively underassessed, may nonetheless be "poorer" than a person with a high income living in a lower-priced house that is

relatively overassessed. It should also be noted that the indicated A/S ratios are averages for the various price ranges; the tendency may not hold true for every property, since, for example, a given lower-priced property may have an A/S ratio lower than a higher-priced property. The important point is that assessments are supposed to reflect the actual market value of properties, and the evidence suggests a tendency for some higher-priced properties to be underassessed relative to some lower-priced properties.

There may be two principal explanations for this tendency. One is that higher-priced properties appreciate at a more rapid rate than lower-priced properties, so that while the assessments may be uniform when they are calculated by the assessor, by the time the assessments are formally established for a levy year the property values have increased at different rates, resulting in a lack of uniformity in A/S ratios at the time the property tax is levied.

A second explanation is that because there are few properties in the highest and lowest price categories, the mass assessment techniques used by the assessor are not as accurate for those categories as for the middle price ranges where there are more properties and hence greater consistency and reliability in assessment techniques.

Fourth, assessment/sales ratios can vary among the different classifications of property. The average A/S ratios for the various classes of property in 1977 were as follows:

<u>Class of Property</u>	<u>Average A/S Ratio</u>
Condominium	44.7
Residential	41.0
Commercial/Industrial	37.5
Apartment	36.8
Farm	18.4

The unusually low A/S ratio for farms can be explained principally by the fact that according to State law, farmland is not intended to be assessed at market value, but rather on the basis of its value as farmland. Thus, a farm may have a potential market value significantly higher than its assessed value as farmland so that when it sells at its real market value, the A/S ratio will tend to be low. Some farm property is held for speculative purposes and continues to be assessed at farmland values far below its real market value for residential or commercial use.

The average A/S ratio for commercial/industrial and apartment properties sold in 1977 may not be representative of all properties in those two classes. There are relatively few sales of commercial/industrial or apartment properties in any year, and most of those sales tend to be of lower-priced properties. Not only do lower-priced properties tend to have higher A/S ratios, but many of the commercial/industrial and apartment properties that do sell are those which are likely to be less profitable than the average and hence would sell at relatively lower prices, thereby producing a higher A/S ratio.

Further evidence also suggests that commercial/industrial property may be underassessed relative to residential property. Here again, the data are not conclusive, but are highly suggestive. In the six year period FY 1972-73 to FY 1977-78, the assessments on existing commercial/industrial properties increased by only 39.1 percent while the assessments on single-family residential property increased by 102.0 percent, or two-and-one-half times as fast. The disparity in rates of assessment increase between the two classes of property does not in itself demonstrate an

inequity in assessment since the respective assessment rate increases may reflect different rates in the growth of actual commercial and residential property values. It is important to note, however, that during this period the national Boeckh construction cost index for commercial and factory construction increased 54.2 percent while the residential construction cost index increased by only 49.0 percent. Thus, although nationally the cost of commercial/industrial construction increase was 5 percent greater than for residences, assessments of commercial/industrial property increased less than the cost of construction, while residential assessments increased more than twice as fast as the cost of construction. This is especially troubling given the fact that commercial/industrial property is assessed by the cost of replacement approach, and thus would seem to be expected to rise commensurately with increases in prevailing construction costs. By contrast, residential and commercial/industrial property assessments in Fairfax County have tended to rise at more nearly similar rates.<sup>8</sup>

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<sup>8</sup>Memorandum from County Executive Leonard Wharton to Fairfax County Board of Supervisors, May 23, 1977, "Comparison of Assessed Value Changes for Commercial and Industrial Properties versus Residential Properties." Attachment \$. The percent change in assessed value of commercial and industrial property, 1970-1977, was 75.4%, and for residential property 1970-1977, was 75.2%. These figures include additions to the assessable base, and hence are not totally comparable to the figures shown for Montgomery County.

Average Annual Increase in Assessments\*

	<u>Commercial/ Industrial</u>	<u>Single-Family Residential</u>	<u>Consumer Price Index</u>
FY 72-73	3.6	7.4	2.7
FY 73-74	-4.8	11.6	6.1
FY 74-75	14.6	20.0	10.7
FY 75-76	1.0	13.0	8.4
FY 76-77	10.3	12.8	6.3
FY 77-78	10.5	10.2	7.1
Total increase	39.1%	102.0%	48.9%

\* Percentages reflect increased assessments for existing property and do not include additions to the assessable base.

Source: Ira Epstein, Analysis of Growth in Montgomery County Real Property Tax Base, FY 1967-1968 to FY 1976-1977, Montgomery County Planning Board, August, 1977.

Fifth, there are varying degrees of uniformity among assessments, as indicated by the coefficients of dispersion. The "coefficient of dispersion" (COD) measures the degree of uniformity in assessments among properties examined. The COD's in Montgomery County for Commercial/Industrial (23.5 percent), Apartment (21.5 percent), and Farm (39.4 percent) properties were significantly higher than for Residential property (9.2 percent). While the COD of 9 percent for residential properties in Montgomery County in 1977 may be considered acceptable, by professional assessment standards, it is greater than the 5 percent COD achieved by Fairfax County<sup>9</sup> for all properties.

<sup>9</sup>Memorandum from County Executive Leonard Wharton to Fairfax County Board of Supervisors, May 23, 1977, p. 2.

F. Possible Sources of Inequity

The inequities identified by the Task Force have various sources, some of which operate in combination.

One source of the lack of uniformity in assessments which can never be fully eliminated is human and machine error, differences in assessor judgment, and the limits of technical accuracy. We believe, however, that these factors can be minimized, and that together they should account for no more than plus or minus 5 percent in the assessment of any given property, a margin of error that is well within the capability of modern assessment practices.

Beyond the reasonable margin of error, however, the Task Force found that problems in establishing accurate and uniform assessments can derive from each of the major components of the assessment system. Of these, we focused on five, each of which is discussed in greater detail in the full Task Force report:

Standards and definitions - State law establishes the bases for property assessment, either by setting definite standards and definitions -- i.e., what is to be assessed by whom in what manner -- or by determining the process by which they are to be set.

Methods and procedures - State law currently leaves substantial latitude for the State Department of Assessments and Taxation to determine what methods will be used to value property, and what procedures will be followed in the execution of those methods. The Department uses a combination of judicial interpretation, professional practice, and its own judgment in establishing methods and procedures.

Administration of Assessments - Assessments are actually made by people organized to carry out work using technical apparatus -- such as maps, files, data, data processing equipment -- and following a combination of formal and informal practice. The quality and effectiveness of the people, the manner in which they are organized and function, and the methods, procedures, and equipment they actually use, will determine the extent to which the formal assessment standards are met and equity achieved.

Evaluation - Formal and systematic evaluation can check the accuracy of assessments, identify deficiencies that cause inaccurate or inequitable assessments, and lead to corrective action.

Appeal Process - Appeals provide one form of assessment evaluation, limited to those taxpayers who protest assessments as being inaccurate or inequitable. The appeal process, however, not only can redress individual grievances, but can also provide information as to generic deficiencies in the system. On the other hand, to the extent the appeal process fails to correct errors, or favors one class of property over another, it can perpetuate or create inequities.

Deficiencies in any one of these components can produce inequities. Each also needs to function in harmony with the others if the overall system is to operate in a balanced, integrated manner to constantly check its own performance, correct errors, and make improvements that will result in greater accuracy and equity.

The assessment system is far too complex for any outside group -- be it a citizen's task force or the State Legislature -- to identify the precise causes of every inequity or deficiency in operation. The system must be structured in such a way as to provide the capability and the incentive to continually improve itself. This is a complex and full-time job that can only be accomplished by the assessors themselves. The most that can be accomplished from the outside is to periodically evaluate assessment equity and accuracy, identify key problems, correct the structure and management of the system to enhance its capability, and increase incentive for continued self-improvement.

#### G. Recommendations

The Task Force gave some consideration to proposals for fundamental changes in the current system of property assessment and taxation, some of which were submitted by citizens during public hearings and in writing.

One proposal, for example, was to eliminate the practice of establishing a dollar assessment of property in favor of a system of "assessment units" based on a few clearly defined physical and locational features of the property. The tax rate would then be applied against the number of "assessment units" for each property. Another proposal was the long-standing idea of taxing only land, and not improvements. We determined that such fundamental changes may have some merit, but that their advantages over the existing system were not so immediately obvious, nor their disadvantages sufficiently understood, for us to recommend a major change in the system. Rather, we urge further consideration of long-term changes, but focus our attention in this report on ways to improve the existing system.

1. Clarifying Standards

State law requires that property be assessed at "full cash value" which "shall mean current value less an allowance for inflation ...". Full cash value has been regularly interpreted by the courts to mean market value, however professional definitions of market value vary, and approaches to determining market value vary for different types of property. As a practical matter, it is difficult to use the sales method in assessing commercial/industrial and apartment properties since there are few sales of comparable properties for those classes of properties. At present, however, only the cost of replacement approach is used for commercial/industrial assessments (with minor exceptions) unless the assessment is appealed in which case income data may be used by either the property owner or the assessor to justify the assessment or argue for an adjustment.

A limited form of income capitalization is used for apartments, since only about 30 percent of apartment owners comply with the assessor's request for income data. While it would be desirable whenever possible to use comparable sales to establish assessments for these classes of property, we recommend that income capitalization be one of the approaches used to determine assessments for commercial/industrial as well as apartment properties.

The cost of replacement and income approaches can tend to understate real market value, especially in inflationary periods. Corrective measures should be used to assure that assessments of commercial/industrial and apartment properties do not result in disproportionately lower assessment ratios than apply to residential properties that are assessed by the sales method. One corrective approach would be to apply a cost of construction index, such as the Boeckh index, in determining or adjusting commercial/industrial and apartment assessments.

Income data are currently requested from apartment owners on a voluntary basis, with no penalty for non-compliance. In most instances income data are supplied by commercial/industrial property owners only when they feel that their assessment is too high in order to argue for an assessment reduction. We recommend that the assessor more aggressively use the authority to request owners of commercial/industrial and apartment properties to submit income and expense data to the assessor's office.

The assessment manuals issued by the State Department of Assessments and Taxation and used as guides by the local assessment offices cover only the cost of replacement approach and ignore the sales and income

approaches. We recommend that the State assessment manuals include definitions and procedures for the sales and income approaches to assessment, as well as the cost of replacement approach, or that at a minimum, the manual specify procedures or reference documents to be used in making appraisals using the sales and income approaches.

The State manuals are in limited supply and are available to the public for review only at the Supervisor's office during office hours. The residential volume is also available in the public libraries. A revised residential manual is currently being field tested but the Task Force has not had an opportunity to review it. We recommend that both the assessment manuals, and the directives of the State Department of Assessments and Taxation relating to methods for assessing property, be made available to the public in the Supervisor of Assessments' offices and in public libraries.<sup>10</sup>

The so-called "allowance for inflation," that is set by the Governor with the approval of the General Assembly at some proportion of market value, in fact has little to do with inflation. Changes in the inflation allowance have the practical consequence of altering the assessable base against which the local tax rate is applied. The perceived relief to the taxpayer that results from a reduction in the level of assessment is generally illusory, since it is typically offset by an increase in the

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<sup>10</sup>This recommendation was enacted into law during 1978 by SB 907.

property tax rate. We believe the assessment level as a proportion of market value should remain constant so that taxpayers can better understand the relationship between the assessment and the tax rate, and not be misled into thinking that a reduction in assessments will necessarily result in a reduction in property taxes.

There is continuing discussion of the relative merits of annual reassessments versus reassessments every second or third year. The principle that assessments for all properties should be as uniform as possible is not well served by raising assessments on different properties in different years. In order to minimize the lack of uniformity among properties and to prevent sudden, large assessment increases, we recommend that all properties continue to be reassessed on an annual basis.

## 2. Improving Methods and Procedures

Judgment will always be required in making assessments, since formal methods and procedures cannot anticipate every detail required in property valuation. However, we recommend that the County Supervisor of Assessments use objective statistical techniques for the appraisal process, document the range of possible appraisals for each property, and make explicit the nature and effect of judgments made by the assessor in arriving at a final assessment.

In particular, we believe that there is sufficient experience with computer-assisted appraisal to demonstrate its usefulness in narrowing the range of assessor judgment, improving the quality of judgments by giving the assessor more useful information, increasing the accuracy of assessments, and exhibiting the data for later evaluation and review by

taxpayers themselves. Fairfax County, Virginia, for example, currently uses a computer-based model that provides the assessor with three different methods of estimating the value of residential property: cost of construction, sales and trend analysis. Each of the three estimates is clearly presented on the property worksheet, with the assessor's final assessment. Not only has this method proven helpful to assessors, but it has also assisted taxpayers in understanding the way in which their property was assessed, and generally has resulted in more accurate assessments that are more readily accepted by taxpayers.

We recommend that Montgomery County be provided with a more effective, computer-based system that would provide alternative valuations for each property -- including the cost of replacement, sales and trend analysis -- to aid the assessor in making more accurate and uniform assessments, and to facilitate understanding and review by the taxpayer. The computer system should also be used to adjust all assessments using the latest available sales data so that uniformity is established as close to the date of finality as possible. We would prefer that the State Director of Assessments and Taxation plan, implement and fund such a system in the near future. If the State cannot or will not do this, we believe the County should be enabled to develop such a system on a cooperative basis with the Office of Assessments and Taxation, using supplemental funding provided by the County.

The Task Force has not undertaken a detailed analysis of the cost of developing and operating a fully computerized assessment system, although experience in other jurisdictions (such as Fairfax County, Virginia, and San Mateo County, California) indicates that it is well within the

range of reasonable cost, especially when compared to the benefit of improved accuracy and equity of assessments. Development costs for Montgomery County may be less than for those jurisdictions that undertook their own development, since presumably Montgomery County could benefit from the experience and technique already developed elsewhere. There is some evidence that use of the computerized system may be cheaper than manual assessments, in part because it reduces staffing needs, and in part, because improved equity tends to reduce appeals which consume assessor time.

Individual assessment offices and individual assessors are currently permitted substantial latitude in applying State guidelines in valuing different properties. Under the computerized system we are proposing, guidelines would be clearer and the range of judgment narrowed. In the meantime, we recommend that the assessor retain, along with his sales analysis, a record of the analysis leading to his decision to depart from the factors prescribed in the manual and an identification of the properties (or types of property) to which the adjusted factor was applied.

The Montgomery County assessment office currently lacks the specialized staff required to adequately assess commercial and industrial properties, and to effectively defend their assessments in appeals brought by commercial and industrial property owners. The assessment office presently has only four C.A.E. assessors, and has not hired a new C.A.E. assessor for several years. By contrast, the Fairfax County assessment office employs five M.A.I. assessors to work in the area of commercial and industrial assessment. We recommend that increased resources be allotted for training of the existing staff and for the addition of specialized staff so as to improve its ability to assess commercial and industrial property.

### 3. Strengthening Management

Numerous small steps are required to improve the administration of assessments. The only way that range of improvements can be made -- and continually pursued in detail -- is through effective management.

Responsibility for assuring effective management lies with the Governor and State Legislature. In the past, State leaders have not shown great interest in providing the resources, incentive, and oversight to assure high performance in the Department of Assessments and Taxation. The tendency rather has been to suggest changes that may be politically popular but have little effect in correcting assessment inequities, and may even create greater problems. We are hopeful that continued public concern will induce State elected officials to concentrate on the real problems of property assessment administration, and we are encouraged by some signs that State officials are beginning to grapple with the hard questions.

Under the current structure of the State Department of Assessments and Taxation, the Montgomery County Supervisor (as is true of his counterparts in other jurisdictions) retains a substantial degree of autonomy from the State Director. This autonomy results in part from the ambiguity of State law, the tradition of County autonomy that dates from the time when counties operated their own assessment systems independent of the State, and the special case of Montgomery County which is perceived as one of the better assessment offices in the State. In his effort to improve assessment

administration throughout the State and to achieve greater uniformity of assessments among jurisdictions, the State Director of Assessments and Taxation has understandably directed the greater part of his attention to those assessment divisions considered to be substandard. There is a danger, however, that property assessment in Montgomery County may suffer as a consequence in two respects.

First, while the State's assessment office in Montgomery County may be above average for the State and even for the nation as a whole -- and while by some indications its assessment accuracy has improved over time -- the office has not achieved the highest standards of assessment practice that have been demonstrated to be feasible in jurisdictions around the country. Nor has the Montgomery County office achieved the rate of improvement we believe is desirable. One reason for the failure to keep pace with modern assessment practices is lack of support from the State Director for performance standards, and supporting resources, above the mediocre statewide level. For example, the State Department of Assessments and Taxation is in the process of implementing a uniform assessment system statewide that falls far short of the latest available assessment techniques and technology, but is geared to raise the level of the low-performance local assessment offices. It may be that the most modern approach would not be the most cost-effective approach for some local offices given their size and administrative capacity. We do not believe, however, that the potential of the State office in Montgomery County should be sacrificed for the purpose of achieving a uniform but mediocre

standard statewide. We would be concerned further that locking Montgomery County into the statewide uniform system may further retard its progress as assessment practices advance nationwide even beyond the standard they have reached today. We urge the State Director to take steps to assure that each division of his Department, including the Montgomery County office, achieve its highest potential of performance, and that statewide standards for assessment procedure be tailored so as not to prevent or discourage the Montgomery County office, or other local offices, from employing the most advanced assessment techniques and technology.

A second problem with the State structure is that in an effort to achieve uniformity of assessments throughout the State, the State Director of Assessments and Taxation as late as 1976 issued instructions that jurisdictions with (assessment/sales) ratios above or below the average for the State should take corrective action to bring their ratios more in line with the State average. We fully support the emphasis on achieving greater uniformity of assessments statewide. We are concerned, however, that achieving uniformity by moving toward average performance would mean lowering the standards of the better performing divisions, thereby causing additional distortions and confusion, and a relaxation of pressure on the Montgomery County office to move toward the highest performance of which it is capable. We recommend that the State continue its effort to achieve uniformity of assessment among jurisdictions throughout the

State; however, we believe it would be preferable to urge all divisions to move toward the highest standards of performance rather than toward an average or mediocre standard. We further recommend that for purposes of levying the State property tax and determining distribution of State grant funds, adjustments in the property base be made to fully account for the lack of uniformity of assessments of the State's subdivisions.

While a substantial minority of the Task Force favored returning the operation of the assessment system to the County government, a majority felt that the State should continue to operate the system, but with greater aggressiveness to raise performance. Even though the Task Force concluded that responsibility for assessments should remain with the State, we recommend that steps also be taken to give the County government a more direct influence in the assessment system to assure continual improvement in equity. To this end we suggest the following actions be considered:

- That the Montgomery County government should regularly evaluate assessments to determine their accuracy and uniformity, identify problems, keep County citizens informed as to the equity of assessments, and recommend corrective actions to the State.
- That the County government submit an annual evaluation of the assessment process to the Montgomery Supervisor and the State Director, and that each of these officials be required by law to comment on the County report and to specifically indicate what action will be taken on proposed recommendations.
- That the County government consider, and appropriate State authorization be given, to permit the County to work with the State's Montgomery County assessment

office to achieve the highest possible level of assessment performance. One approach, as noted earlier, would be for the County government to provide assistance in developing the capacity for more accurate assessments.

We recognize that no one of these actions will give the County government actual authority to make changes in the assessment system, but we believe they would strengthen the ability of the County to press for, and assist in achieving, needed improvements and to monitor the State's actions toward greater accuracy and equity of assessments.

Increasing demands for accuracy and equity are being placed on the assessment office in Montgomery County, in addition to the demands caused by the increasing complexity of assessment laws. To respond effectively to these demands, the office requires a continuing process of self appraisal and updating of methods and procedures. We recommend that the Supervisor of Assessments for Montgomery County establish an annual assessment system improvement process.

The conversion of the assessment system to State control in 1975 has significantly reduced the salary which can be paid to assessors in the Montgomery County office. While assessors who were formerly on the County payroll are protected, new assessors are paid on a State salary scale which is about 25 percent below salaries for comparable work paid by the Montgomery County government. As time goes on, the calibre of personnel attracted by the assessors office will be well below the norm within the County. To remedy this, the Task Force recommends that the County Delegation introduce legislation supporting

pay differentials among different counties, so that assessors and other personnel in like positions can afford to live in the counties where they are assigned to work.

There is also a need to reward superior performance within the assessment office by providing avenues for professional and managerial growth. The present structure of the office provides almost no opportunity to do this. We recommend that the State Secretary of Personnel (1) establish a pay increase differential for assessors handling such specialized functions as commercial, personal property and farm assessments, and (2) establish an intermediate managerial position between the present Assessor III and Field Supervisor positions.

#### 4. Evaluating Performance

Improved evaluation of the overall assessment system should proceed on three levels. First, the Montgomery County Supervisor of Assessments should assess the accuracy and uniformity of assessments as of the date of finality, using a widely accepted method of statistical evaluation, and should issue annually a report on patterns of assessment changes and assessment accuracy and uniformity among classes of property, districts, and subdivisions. The local office currently does not generate the data, nor does it use the techniques or technology, that are available for more precise evaluation of assessment and correction of inaccuracies. The Task Force has suggested a set of evaluative criteria in the computer program developed with the County government's Management

Information Service. We believe these criteria provide a beginning for more effective evaluation of assessments.

Also, the State Department of Assessments and Taxation should place greater emphasis on developing the capability and providing the incentive for more effective evaluation of County assessments.

#### 5. The Appeal Process

One of the most important ways to discover and correct inaccuracies or errors in assessments is through individual taxpayer appeals. Many assessment problems are resolved informally by discussion between assessors and property owners. The assessment appeal process begins with a formal protest by the taxpayer to the Montgomery County office of the State Department of Assessments and Taxation. From there an appeal can be pursued to the Property Tax Assessment Appeal Board (PTAAB), which is also a State body. Further appeals go to the Maryland Tax Court, which is an administrative body, and then to the Circuit Court, and the Court of Appeals.

The assessment appeal process is widely misunderstood by the public. There are about 5,000 residential protests per year ( a 75 percent increase since the shift from triennial to annual assessments, part of which may also be attributed to rapid inflation in residential values) and about 500 commercial protests per year. According to the assessors and other officials involved in the appeal process, a substantial minority of those protesting either are generally concerned about tax increases, or do not understand the distinction between the property assessment and the property tax rate. Many, as a result,

spend a great deal of their time and of the assessor's time in protests and appeals that have virtually no chance of resulting in a reduction in assessment. The time spent by assessors on appeals and appeal-related property owner inquiries detracts from their time for regular assessment activities.

In order to minimize fruitless citizen protests and to enhance the ability of taxpayers to more effectively appeal legitimate grievances, the Task Force recommends: 1) continuation of the recently instituted procedure of making the applicable residential sales analysis available to a property owner upon request; 2) compilation and publishing of stated reasons for assessment reduction before PTAAB and Tax Court; 3) report of reason for assessment change; 4) extension of the appeal period from 30 to 45 days after notice of assessment; and 5) provision of assessment interpretation aid to property owners by a paraprofessional located within the Supervisor's office.

The residential property owner tends to be at a disadvantage in appealing his or her assessment. The principal reason for this is that appellants have been expected to show that their assessment exceeded 50 percent of the present value of the property. Since the assessor bases his assessment on sales which take place 12 to 30 months prior to the effective date of the assessment (the date of finality), properties at the time of appeal were, on the average, assessed well below 50 percent of their current market value. The average current assessment/sales ratio for properties sold in 1977 was 41 percent. Thus, an individual

property could have been assessed almost 25 percent above the average<sup>10</sup> and still not exceed 50 percent of its value during the levy year. The assessor could defend against the appeal of the assessment of such properties by showing that, based on recent comparable sales, the assessment was below 50 percent of current market value. Thus, the appeals process works to correct only the most blatant relative inequities. In the long run, techniques to bring the assessed values closer to the actual values as of the date of finality should reduce this problem. In the interim, as a partial solution, the Task Force recommends that the assessor be limited in defense of his assessment to sales in the base period used to establish the original assessment.

The appeal process should also serve as a means for testing and improving the methods used for assessment. However, at present there is no systematic effort to learn and generalize from the cases of successful appeal to correct for similar errors that may be present in the assessment process. The Task Force recommends systematic assemblage, organization by property class and reason for appeal, and evaluation and feedback into assessment and appeal processes, of the results of appeals; and publication annually of a report of these results by subdivision in terms of numbers of appeals, amount of assessment and percent of assessment change; and that adequate staff be provided for these tasks.

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<sup>10</sup>An assessment of .50 is 25 percent higher than an assessment of .40.

Since it is a rare taxpayer who will protest his assessment on the grounds it is too low, the appeal process traditionally has worked only to reduce assessments found to be too high. Yet under-assessed property is a major source of inequity since it results in other property owners paying a disproportionate share of taxes. To correct this imbalance, the County Council created the Office of the Public Advocate for Assessments and Taxation to appeal underassessed property on behalf of the public. In the first three years of its existence, the Public Advocate's Office has demonstrated both the extent of underassessment of some properties and the potential for correcting them through appeal by the County government. For Levy Year 1976, for instance, the Advocate was responsible for an upward reassessment of \$4.5 million in commercial/industrial property. In the first three years of its existence, actions by the Public Advocate resulted in about \$180,000 in additional annual revenues from underassessed property, while the Office itself cost only \$50,000 per year.

We believe the validity of the Public Advocate mechanism has been amply demonstrated, but that the potential of the Office is far from fully developed. The Office should have additional statistical capability to more comprehensively evaluate assessments, additional staff to vigorously identify and appeal underassessments, and funds to hire professional appraisers to assist with the evaluation of commercial/industrial property assessments.

The name "Public Advocate" has caused some confusion among taxpayers who assume the Office was established to assist them in their appeals. That is not the principal mission of the Office (although it does provide information about appeal procedures to individual taxpayers upon request) and the name should, therefore, be changed to lessen the misunderstanding. We recommend the name of the Public Advocate be changed to the Office of Assessment Review, and that it be provided sufficient resources to permit the Office to step up its activities, including continual use and further development of the computer-based evaluation program established by the Management Information Service in conjunction with the Task Force.

#### 6. Informing the Public

Public understanding needs to be improved on several points:

- There is a distinction between the property assessment and the property tax.
- Property assessments are exclusively the responsibility of the State of Maryland, not of the Montgomery County government.
- Few properties can be proved conclusively to be assessed above the legally specified percentage of their market value given the current ground rules by which assessments are made and appealed.
- Inequities result not so much from overassessment as from lack of uniformity in assessments among various properties; that is, some taxpayers are paying less than their share as the result of their properties being assessed at a lower effective rate than others.
- Most taxpayer protests of their assessments are futile for two reasons: 1) it is very difficult to prove your property is overassessed; and 2) the protest cannot effectively address the inequity that results from under-assessment of other properties.

- o Taxpayers should be dissuaded from assessment protests based on a general concern with rising taxes, although they should not be discouraged from appealing assessments which do not reflect market value, or are based on error.
- o There are problems with the assessment system that should and could be corrected. However, the State government is responsible for property assessments, and consequently, citizen attention and action should be focused on State officials and the County's legislative delegation to Annapolis for needed changes.

In order to improve public understanding of the assessment process, we recommend that a pamphlet be prepared by the County government explaining property tax assessment and appeal procedures in layman's terms. The Task Force has prepared an outline for such a pamphlet (Appendix D). The State or the County government should also consider establishing brief classes or programs or other forms of public presentation to more fully inform the public about property assessment.

#### H. Conclusion

The system of property assessment, as it is operated by the State in Montgomery County, may compare reasonably well with the average assessment system around the State and nation, but it falls short of the system it could be. There are numerous reasons for the deficiencies we found, not least of which is the public's unwillingness to accept the margins of error, ambiguity, and assessor judgment that it may not have questioned in the past. We believe many improvements can be made simply by pointing them out; the assessment office desires to perform its job well, and wants to be perceived by the public as a fair and professional operation. Other improvements, however, will

require stronger action since they may encounter resistance from the many interests -- including those at the State and County levels and taxpayers themselves -- who tend to benefit from inequities or long-standing modes of operation in the current system.

Part of the problem lies in the lack of clear accountability for performance of the assessment system. The County Council took the initiative to establish this Task Force, yet the Council has no direct authority for property assessment. We strongly encourage the State government to take the actions we recommend for improvement, and urge the County Council to continue its leadership, and the County Executive to use the formidable powers of his office, in pressing for a more equitable assessment system.

In the end, however, change will result principally in response to the public's demand for it. We hope this report will help citizens better understand how the assessment process works, where action should be directed for maximum impact, and to what extent concern about assessments reflects a deeper frustration with government cost and performance.

## CHAPTER II

### ASSESSMENT LAW AND STANDARDS

Real property assessment practice in Montgomery County is based on Maryland state law and state court judicial decisions. This chapter reviews the legal and judicial bases for real property assessment; analyzes how assessment law is interpreted and implemented by the various agencies involved in assessments and taxation; and compares assessment practices established by the State with recognized professional appraisal standards.

#### A. Legal and Judicial Bases for Real Property Assessment in Maryland

##### 1. Authority to Tax Real Property

The power to tax real property in Maryland is vested in the State Legislature by the Maryland Constitution,<sup>1</sup> although this taxing power has been delegated to Montgomery County.<sup>2</sup> All classes of land and property improvements are required to be taxed uniformly.<sup>3</sup>

The property tax is the product of a tax rate, which is set each year by the County Council,<sup>4</sup> and a real property assessment, which is a value placed on land and improvements. For example, a tax rate of \$4.00 per \$100 of assessment, applied to an assessment of \$25,000

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<sup>1</sup>Article 14, Declaration of Rights, Maryland Constitution.

<sup>2</sup>Article 11A, Section 2 of the Maryland Constitution and Article 25A, Section 5 of the Annotated Code of Maryland. Section 52-4 and 52-5 of the Montgomery County Code authorize the County Council to set local real property tax rates and authorizes the Executive Branch to collect real property taxes.

<sup>3</sup>Article 15, Declaration of Rights, Maryland Constitution.

<sup>4</sup>Article 81, Section 32, Annotated Code of Maryland.

yields a tax of \$1000 ( $\$4.00 \times \$250$ ). The County Council sets the property tax rate by, first, determining the revenue needs that must be met by the property tax. Secondly, they receive an estimate from the assessor of the total assessed value of real property within Montgomery County for the next taxable year. Lastly, they divide the revenue requirements by the total county assessed value to arrive at the new tax rate.

The County Council must observe special public notice and hearing requirements if the property tax rate exceeds a State Department of Assessments and Taxation calculated "constant yield tax rate."<sup>5</sup> The constant yield tax rate will provide the same property tax revenue as was needed during the current taxable year. For example, if the revenue needed during the current year was \$1000 and the total assessed value of real property was estimated to increase by 10% to \$27,500, then the constant yield tax rate would be ( $\$1000 \div \$275$ ) or \$3.64 per \$100 assessed value. Thus, a tax rate of \$3.64 would yield the same revenue as this year. If the County Council needed more revenue next year, the rate would have to be increased above \$3.64 with all the public notices and hearings required by law.

## 2. Assessing Authority

While the power to tax real property has been delegated to Montgomery County, the responsibility to assess such property rests

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<sup>5</sup> Article 81, Section 232c, Annotated Code of Maryland.

entirely with the State Department of Assessments and Taxation. The Department is, in part, responsible for:<sup>6</sup>

- Supervising the performance of duties of the Supervisors of Assessment in each County, which are administrative subdivisions of the State Department of Assessments and Taxation
- Preparing suitable instructions and directives
- Preparing and installing a complete record of properties and a system of assessor aids
- Maintaining and enforcing a continuing method of assessment review; including an enforcement of reassessment if property assessment is not uniform
- Requiring individuals, firms and corporations to furnish complete information about ownership and value of taxable property
- Providing annual surveys of assessment ratios
- Appointing competent and experienced assessors of commercial and individual properties
- Notifying each County of an estimate of the total assessed value and the constant yield tax rate.

The Supervisor of Assessments in Montgomery County is directly responsible for supervision of assessments within the County.<sup>7</sup> He is a paid state employee appointed by the State Department of Assessments and Taxation from a list of five qualified applicants submitted to the department by the County Executive with approval of the County Council. The Supervisor of Assessments can be removed from office only by the State Department of Assessments and Taxation.<sup>8</sup> All of the assessors

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<sup>6</sup> Article 81, Section 232, Annotated Code of Maryland.

<sup>7</sup> Article 81, Sections 13(a) and 234, Annotated Code of Maryland.

<sup>8</sup> Article 81, Section 23 and 233, Annotated Code of Maryland.

and clerical employees who work for the Supervisor of Assessments are also state employees.<sup>9</sup>

3. Valuation of Real Property

a. Criteria for Valid Assessment

According to a publication of the State Department of Assessments and Taxation:<sup>10</sup>

An assessment is an official valuation of property for the purpose of taxation. To be valid, it must meet exacting criteria. An assessment must be equitable; that is, it must accurately reflect the proportionate share of the total value of all taxable property so that each property bears no more than its fair share of the tax burden. An assessment must be uniform: that is, the same treatment must be applied systematically to all property according to classification. An assignment must be lawful; that is, it must be in harmony and compliance with law and court decisions.

As was mentioned earlier, the Maryland Constitution requires that assessments "shall be uniform within each class or subclass of land, improvements on land and personal property ...."<sup>11</sup> The State Department of Assessments and Taxation is directed by law to formulate a uniform plan for the assessment of property throughout the state and this plan must be followed by each county Supervisor of Assessments.<sup>12</sup>

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<sup>9</sup>Article 81, Section 246, Annotated Code of Maryland.

<sup>10</sup>State Department of Assessments and Taxation. The Assessment Story, March 1977.

<sup>11</sup>Article 15, Declaration of Rights, Maryland Constitution.

<sup>12</sup>Article 81, Section 244, Annotated Code of Maryland.

There is continuing discussion of the relative merits of annual reassessments versus reassessments every second or third year. The principle that assessments for all properties should be as uniform as possible is not well served by raising assessments on different properties in different years. In order to minimize the lack of uniformity among properties and to prevent sudden, large assessment increases, we recommend that all properties continue to be reassessed on an annual basis.

Although the goal is to assess equitably, the courts have also recognized that perfect equality or uniformity in assessments is unattainable. The courts have noted that if assessments could be upset by comparison of a few widely different properties on the basis of a selected few of the many elements or evidences of value, no assessment could stand.<sup>13</sup> Valuation of land, as the Maryland Court of Appeals has held, is not an exact science.<sup>14</sup>

Finally, it should be noted that the courts generally do not interfere with the exercise of the assessing authority by the assessor unless it is unlawful, unreasonable or against the substantial weight of the evidence, and the courts presume the good faith of assessment officials and the validity of their actions.<sup>15</sup>

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<sup>13</sup>Weil vs. Supervisor of Assessments, 266 Md. 238.

<sup>14</sup>Fairchild Hiller Corporation vs. Supervisor of Assessments, 267 Md. 519.

<sup>15</sup>Weil, op. cit.

b. Full Cash Value

According to the Maryland Code, all real property "shall be assessed at its full cash value on the date of finality."<sup>16</sup> The term full cash value as used in this subsection means current value less an allowance for inflation, if in fact inflation exists, however, any change in the inflation allowance shall be as provided by legislation enactment or by executive order subject to approval by the General Assembly ...."<sup>17</sup>

Full cash value has been interpreted by the court to be equivalent to market value.<sup>18</sup> Market value of property is "... the value a willing purchaser will pay for it to a willing seller in the open market, eliminating exceptional and extraordinary conditions giving the property temporarily an abnormal value."<sup>19</sup> The definition of full cash value being the same as market value is based on the weight of authority from other jurisdictions and is in accord with the definition that was established at the time of the enactment of Article 81, Section 14, in 1958. The decisions of other jurisdictions are in general agreement in interpreting the term full cash value as market value in similar taxing statutes.<sup>20</sup>

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<sup>16</sup> Date of finality is January 1. Article 81, Section 29a, Annotated Code of Maryland.

<sup>17</sup> Article 81, Section 14, Annotated Code of Maryland.

<sup>18</sup> Schley vs. Montgomery County, 106 Md. 407, 67 Atl. 250.

<sup>19</sup> Rogan vs. County Commissioners, 194 Md. 299.

<sup>20</sup> California Portland Cement Co. vs. State Board of Equalization, 67 Cal. 2d 578 63 Cal Reporter 5 432 Pacific 2d 700, 1967. McArthur Jersey Farm Daily Inc. vs. Dade County, 240 Southern 2d 844 (Florida Appeals 1970); Board of Equalization of Bernalillo County vs. Heights Real Estate Co., 74 New Mexico 101 391 Pacific 2d 328, 1964.

The method or methods to be used by the assessor to determine full cash (market) value is not specified in the legislation. The Court of Appeals has indicated that the value of real property is ordinarily determined by what it will bring at fair sale in the open market based on sales of comparable properties,<sup>21</sup> known as the comparable sales approach. Three approaches to market value have been recognized and approved by the Courts: 1) comparative market data, 2) reproduction cost, and 3) capitalization of income.<sup>22</sup> This is an area where the assessor's judgment is relied upon. In arriving at full cash value on individual properties assessors have reasonable latitude in selecting a method of valuation so long as they arrive at "full cash value."<sup>23</sup> The courts have not limited the assessors to any particular method of assessing. The Court of Appeals has held, for example, that it would not as a matter of law require that assessing authorities be guided entirely by current market prices in making assessments.<sup>24</sup> The court has recognized that there may be a "thin" market or the sales may be abnormal, and it is strictly within the province of the assessor to make that determination. What is important is that the assessor establish

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<sup>21</sup>Schley vs. Montgomery County, 106 Md. 407,  
Supervisor vs. Banks, 252 Md. 600.

<sup>22</sup>Fields vs. Supervisor, 255 Md. 1,  
Tax Comm. vs. Brandt Cabinet Works, 202 Md. 533.

<sup>23</sup>Macht vs. Department of Assessments, 266 Md. 602.

<sup>24</sup>Rogan, op. cit.

"full cash value." What is less important, according to the court, is the method by which he arrives at that figure. Some recommendations about improving assessment methods are included elsewhere in this report.

c. Allowance for Inflation

The term "full cash value" means the current value less an allowance for inflation, currently set at 55%. The Maryland Code further provides that, however, if inflation does exist, any change in the inflation allowance shall be provided by legislative enactment or by Executive Order subject to approval by the General Assembly prior to the order becoming effective.<sup>25</sup>

The so-called "allowance for inflation," that is set by the Governor with the approval of the General Assembly at some proportion of market value, in fact has little to do with inflation. Changes in the inflation allowance have the practical consequence of altering the assessable base against which the local tax rate is applied. The perceived relief to the taxpayer that results from a reduction in the level of assessment is generally illusory, since it is typically offset by an increase in the property tax rate. We believe the assessment level as a proportion of market value should remain constant so that taxpayers can better understand the relationship between the assessment and the tax rate, and not be misled into thinking that a reduction in assessments will necessarily result in a reduction in property taxes.

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<sup>25</sup> Article 81, Section 14, Annotated Code of Maryland.

#### 4. State Legislative Oversight of Assessments

Two committees of the General Assembly monitor assessment practices: the Ways and Means Committee in the House of Delegates, and the Budget and Taxation Committee in the Senate.

A Tax Assessment Study Task Force composed of members of the Maryland General Assembly and of the public was established in 1977 to study assessment practices. More specifically, the Task Force was to address such concerns as excessive increases in property assessments, legal restrictions on assessment reform, alternatives to the current annual assessment cycle, the impact of property improvements on current market value, and the assessment methods for commercial and industrial properties.

The State Tax Assessment Study Task Force prepared an interim report in November 1977 which includes their findings and recommendations.<sup>26</sup> Three pieces of legislation were also recommended for introduction. The key findings and recommendations are listed below:

- Endorsed concept of an improved annual assessment system with physical inventory every three years and a computer assisted assessment the other years.
- Recommended that the income approach be one of the methods utilized in determining assessed value of income producing property. Recommended that income and expense statements be filed by property owner and provide penalties for noncompliance.

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<sup>26</sup>Summary of Findings of the Tax Assessments Study Task Force;  
1977 Interim Report to the Maryland General Assembly, Nov. 1, 1977.

- Reviewed bills and endorsed legislation to improve the appeals process, extend the circuit-breaker tax credit and clarify the local property tax credit.
- Supported concept of certification of assessors.

B. Implementation and Interpretation of Assessment Law

1. State Department of Assessments and Taxation

The Department is currently responsible for supervision of the real property tax assessment structure for the state. As such, the Department interprets state law for the Supervisor of Assessments in Montgomery County and is responsible for implementation of Maryland Assessment law.

a. Organization

The present Director of the State Department of Assessments and Taxation is William L. Shoemaker. His responsibilities cover more than just real property assessment but in that area he has a Supervisor of Real Property Assessments who supervises seven area supervisors as illustrated in Figure II-1. The Supervisor of Assessments in Montgomery County is overseen by the Area 4 Supervisor.

b. State Assessment Plan

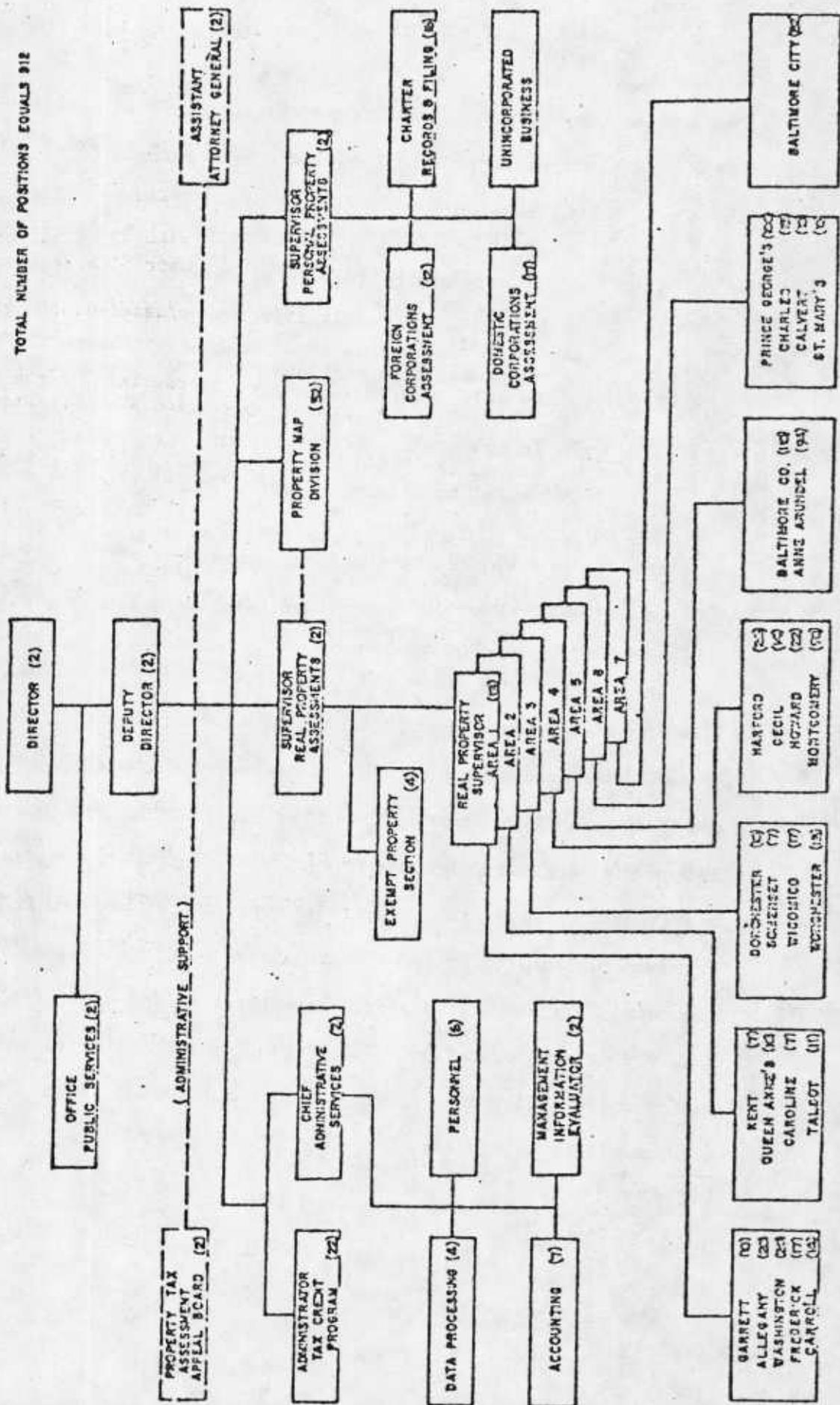
The State Department of Assessments and Taxation was given certain responsibilities by the Maryland Code. Some of these responsibilities were listed in Section A.2 of this chapter. The Department has prepared an Executive Plan (1977) which lists goals, objectives and an implementation plan which is intended to implement

# ORGANIZATION CHART

MAY 1, 1977

## STATE DEPARTMENT OF ASSESSMENTS AND TAXATION

TOTAL NUMBER OF POSITIONS EQUALS 912



some of the Department's legal responsibilities in an orderly fashion. Some of the key objectives of the plan are as follows:<sup>27</sup>

- To establish by taxable year 1978-1979 a uniform approach to Commercial and Industrial Assessments.
- To automate by July 1978, sales/assessments ratio analysis.
- To provide professional standards through the establishment of a Maryland Certified Assessor Program by July 1978.
- To provide for uniformity in real property residential assessment through the development of an expanded cost manual by January 1, 1979.
- To develop ... a standard assessment data system in seventeen of the local assessment offices by July 1978.
- To develop a management statistic report procedure on real property assessments by July 1978.

The Task Force supports all of these objectives. The Task Force also feels that there should be a strong commitment to a system that would permit continuous review of the quality of property tax assessment in Montgomery County as stated in Article 81, Section 232 of the Maryland Code. Quality control management reports, such as assessment/sales ratios, could be used to spot problem areas and to ensure uniformity in assessment. These reports could be easily generated if a computer assisted assessment system similar to Fairfax County's were in operation. In addition, a sophisticated computer system could assist in preparing sales analyses and could reduce assessment manpower needs.

<sup>27</sup> Department of Assessments and Taxation, Executive Plan, 1977.

c. Guidance to Supervisor of Assessments

The State Department of Assessments and Taxation provides guidance to the Supervisor of Assessments in Montgomery County by issuing directives, by preparing assessment manuals, and by sponsoring an education and training program.

The State Department has published directives for many years to help guide local assessors, to promote uniformity, and to clarify current legislative changes and judicial decisions. The directives are in loose leaf form and are filed by each Supervisor of Assessments. Public access has been very limited. Since these directives presumably implement certain changes in assessment procedures, they should be standardized and made more available for public review.

Assessment manuals are published by the state to guide local assessors in the use of the cost approach to assessment. The manuals cover residential, commercial and industrial properties. The manuals are in limited supply and are available to the public for review at the Supervisor's office during office hours. The residential volume is also available in the public libraries. A revised residential manual is currently being field tested but the Task Force has not had an opportunity to review it. We recommend that both the assessment manuals and the directives of the State Department of Assessments and Taxation relating to methods for assessing property, be made

available to the public in the Supervisor of Assessments' offices and in public libraries.<sup>28</sup>

A continuing education and training program is sponsored by the state to establish and improve the professionalism and competency of the assessors. Assessors are taught the latest assessment techniques and procedures at central locations in the state using standard professional appraisal manuals. An objective of the State Department is to establish a Maryland Certified Assessor Program by 1978. The Task Force did not evaluate the effectiveness of this program.

The American Society of Appraisers has recently sponsored the formation of Valuation Sciences Degree Programs at five colleges<sup>29</sup> which offer Bachelors and Masters Degree programs with a concentration in Valuation Sciences. We suggest that the State Department of Assessments and Taxation encourage assessors to avail themselves of professional educational opportunities such as these degree programs offer.

## 2. County Government Relationship to Assessment

The County government sets the property tax rate based upon the amount of revenue needed to cover budgeted expenses. The assessment of all property in the County is done by the Office of the

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<sup>28</sup>This recommendation was enacted into law on May 2, 1978 by SB 907.

<sup>29</sup>The five colleges are: Hofstra University, Hempstead, New York (BA, MA); Loretto Heights College, Denver, Colorado (BA); Pepperdine University, Los Angeles, California (BS, MBA); Skidmore College, Saratoga Springs, New York (BA); and Southwest Texas State University, San Marcos, Texas (BA/BS, MA/MS).

Supervisor of Assessments, a state office which is directly under the supervision of the State Department of Assessments and Taxation. The assessment process is completely independent of the Montgomery County government. After the assessment on a property has been completed, Montgomery County prepares a tax bill by applying the tax rate to the assessment completed by the state offices.

C. Standard Appraisal Approaches and their Relationships to Assessment

There are three generally accepted approaches used by appraisers to value property; the market approach, the income approach, and the cost approach. All three approaches are used by assessors in determining assessed value.

The market approach uses comparative market sales of property to make estimates of value. This approach is applicable to owner occupied residential property and is the recommended method for such property.<sup>30</sup> The market approach is also "applicable to multi-purpose industrial property; to industrial properties when liquidation is the proper measure of value."<sup>31</sup>

The income approach uses a capitalized value of projected net income from the property. The income approach is most applicable to income producing property such as apartment buildings, office buildings and retail buildings.

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<sup>30</sup>Boeckh Building Valuation Manual, Volume I (Residential).

<sup>31</sup>Boeckh Building Valuation Manual, Volume II (Commercial).

The cost approach involves computation of the replacement cost of new property improvements less observed depreciation. This approach is most applicable to schools, hospitals, churches, clubs and lodges, institutions, municipal and government buildings. In defining the cost approach, the Appraisal of Real Estate states that:

Properties such as schools, churches, transportation terminals and hospitals exist in a limited number because of their specific use characteristics. In the valuation of a property of this type, it is difficult to find comparable substitute properties; therefore the use of the market data approach is rarely appropriate. The cost approach is usually the most effective method to obtain a value indication for such properties.

In another professional appraisal publication,<sup>32</sup> the cost approach is defined as being particularly applicable when the property being appraised involves relatively new improvements which represent the highest and best use of the land or when relatively unique or specialized improvements are located on the site and for which there exists no comparable property on the market.

The assessment manuals issued by the State Department of Assessments and Taxation and used as guides by the local assessment offices cover only the cost of replacement approach and ignore the market and income approaches. We recommend that the State assessment manuals include definitions and procedures for the market and income approaches to assessment, as well as the cost of replacement approach, or that at a minimum, the manual specify procedures or reference documents to be used in making appraisals using the market and income approaches.

<sup>32</sup>American Institute of Real Estate Appraisers and the Society of Real Estate Appraisers, Real Estate Appraisal Terminology.

As a practical matter, it is difficult to use the market method in assessing commercial/industrial and apartment properties since there are few sales of comparable properties for those classes of properties. At present, however, the cost of reproduction and/or replacement approach is used for commercial/industrial assessments (with minor exceptions) unless the assessment is appealed, in which case income data may be used by either the property owner or the assessor to justify the assessment or argue for an adjustment. A limited form of income capitalization is used for apartments, since only about 30 percent of apartment owners comply with the assessor's request for income data. While it would be desirable whenever possible to use comparable sales to establish assessments for these classes of property, we recommend that income capitalization be one of the approaches used to determine assessments for commercial/industrial as well as apartment properties.

The cost of replacement and income approaches can tend to understate real market value, especially in inflationary periods. Corrective measures should be used to assure that assessments of commercial/industrial and apartment properties do not result in disproportionately lower assessment ratios than apply to residential properties that are assessed by the market method. One corrective approach would be to apply a cost of construction index, such as the Boeckh index, in determining or adjusting commercial/industrial and apartment assessments.

Income data are currently requested from apartment owners on a voluntary basis, with no penalty for non-compliance. In most instances income data are supplied by commercial/industrial property owners only when they feel that their assessment is too high in order to argue for an assessment reduction. We recommend that the assessor more aggressively use the authority to request owners of commercial/industrial and apartment properties to submit income and expense data to the assessor's office.<sup>33</sup>

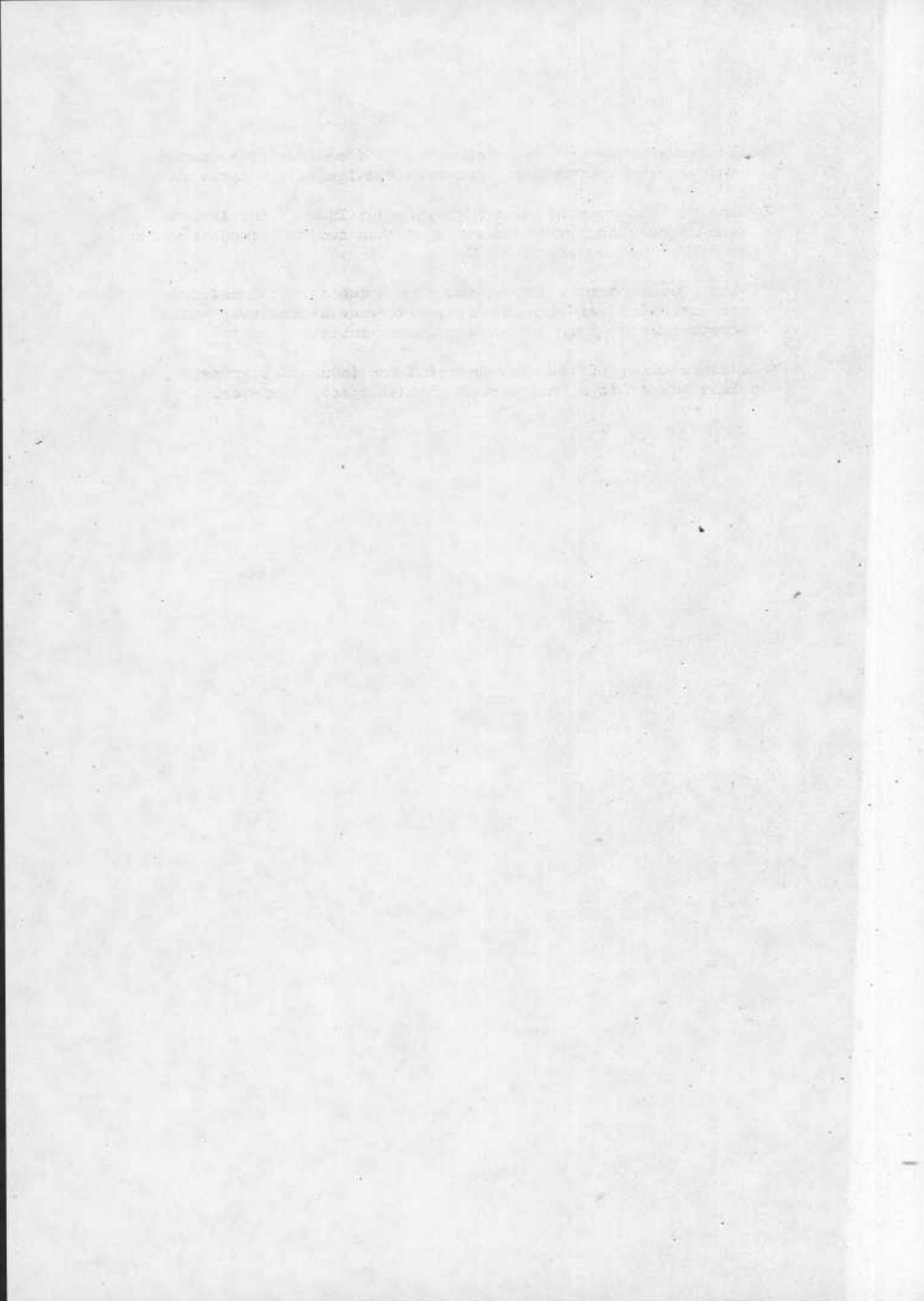
The Task Force reviewed the Assessment Manuals in great detail and compared them with professional appraisal standards. A complete analysis of the manuals is included in Appendix A, however, a summary of the technical recommendations are included here. The Task Force recommends:

- Updating time/location modifiers for the Cost Approach more frequently than once a year.
- In place of County modifiers, using market areas, even though there may be more than one per County.
- Using square feet or acres instead of front feet for residential values.
- Providing a better method of computing depreciation when the Cost Approach is used (e.g., age/life method).

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<sup>33</sup> New legislation, enacted and signed into law in the 1978 session, requires income and expense statements from owners of all real property which produces income (SB 660) Sec. 14(e), Art. 81, Annotated Code. The Supervisor has the authority contained in Sections 29(c), 29(d) and 41, Art. 81, Annotated Code to obtain income and expense information.

- More leeway than  $\pm 5\%$  for cheap or good construction compared with average construction for commercial property assessments.
- Using a sliding scale for Building Cost Indices for large and small commercial properties rather than two flat amounts which may differ by as much as 30%.
- Using square foot factors rather than cubic feet consistently for commercial and industrial property or alternatively using correct labels (i.e., square foot, or cubic foot).
- Continued use of the Cost Approach for industrial property unless there is a recent sale of that specific property.



## CHAPTER III

### ACCURACY OF ASSESSMENTS

#### A. Introduction:

Four fiscal years of data were analyzed by this Committee in order to evaluate the accuracy of assessments. The generally accepted tool for measuring consistency of assessments is known as the A/S ratio, in which A is the assessed market value and S is the sale price, both confined to a particular date or common time span. The difficulties with this measure are:

- (1) it is calculated only after the events of sales taking place which can be few and far between for some property types or subdivisions,
- (2) sales prices are not always clear when complex transactions are involved, and
- (3) some sale prices are not indicative of true market value because of non-market factors -- such as sales between family members.

But for purposes of measuring accuracy and equity, the comparison of A/S ratios for various classes of property (commercial, residential, apartment, condominium, farm and unimproved land), for differing subdivisions, for economic stratifications, etc., provides a general index of the equity of assessments.

To examine the equity of assessments a computerized data analysis is essential in order to review the existing 175,000 property accounts that are assessed each year.

B. Information and Availability:

The Department of Management Information Services of Montgomery County provides data processing services on a cost reimbursible basis to the State Department of Assessments and Taxation. Two basic data tapes are prepared each year for the assessor's use: (1) an image of the July 1st tax file, and (2) an accumulated file of all transactions processed against the assessment data base during the current year. In addition, the Committee was given access to a series of bound computer printouts that represent the Quarterly Sales Record for all property types by subdivision and calendar quarter. The Public Advocate for Assessment also made available a number of reports generated by his office which summarize the sales activity in the County and which highlight A/S ratios. These summaries also indicate A/S ratios beyond acceptable range and which are reviewed with the State Assessment Office. The State Department of Assessment and Taxation was cooperative in allowing examination of working records so that it could be determined how they accomplish the specifics of their job. Some of these records, however, are private, privileged data, such as the income reported by business firms, and the committee had no access to these records.

C. Problems with the Present Computer Usage and Other Reporting Methods:

(1) Reporting accurate sales price information is essential if the A/S ratio is to be a valid indicator of equity. These data are entered by scanning recorded transfer records for the amount paid in

tax stamps. This process is subject to human error as well as improper stamping or confusion when a transfer involves more than one property entity. The 1969 Report on Assessment<sup>1</sup> called for this procedure to be changed, but this recommendation has not been implemented.

(2) We found numerous, but not precisely determinable, errors in the Quarterly Sales Reports apparently caused by the computer program's inability to cope with unusual ranges of the input data. Since these reports provide an overall A/S ratio for each subdivision, it is important that errors be minimized or the totals shown will be incorrect. However, in the present system errors are not flagged for human review and the output data is calculated and presented in this raw form with an unknown number of errors.

(3) The computer-stored data base is incomplete in that it does not store a complete transfer record of all properties for the previous three to four years, but rather only the last sales transaction that took place. Thus, it would be difficult to construct a trend line of sales price for a property if it were decided to use a predictive technique to establish future assessments.

(4) Probably the most serious deficiency observed in the present system is that the assessor does his calculations by using his personal record system and manually determines values instead of utilizing standardized computer techniques. Systematic methods are not used to

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<sup>1</sup>Report of the Assessments Review Committee to the Montgomery County Council, December 30, 1969.

flag out-of-range A/S ratios or to analyze data groupings for consistency of assessments. A computer system for automatically reporting exceptional data would be a significant time saver for assessors, and would reduce citizen appeals.

(5) No computerized data base exists for storing the physical aspects of each property account, therefore, a large part of the assessor's workload consists of keeping and updating an individual worksheet for each dwelling or commercial/industrial or apartment property. The calculations required to estimate reconstruction costs are done manually rather than by computer analysis.

(6) There are no regular reports generated giving a quantitative evaluation of the accuracy of assessments such as the coefficient of dispersion. The coefficient of dispersion provides a numerical index to the amount by which assessments deviate from the average A/S ratio for the subdivision or group of properties being evaluated. This measure is not used to evaluate the accuracy of individual assessor's work nor is it uniformly calculated to evaluate the accuracy of assessments by class of property or by subdivisions. Other statistical measures such as mean values and standard deviations might also be useful. At present no measures of disparities in A/S ratios within subdivisions or between subdivisions or types of property are routinely calculated or used by assessors. However, we were provided with one example of the coefficient of dispersion for District 7 for 1976. But it was erroneously calculated to be 1.5. This was not a simple error in computation but a fundamental misunderstanding of this coefficient.

D. Accuracy and Equity of Assessments:

Four sets of data and analyses are available to examine the basic question of accuracy of assessments.

- (1) Frequency distributions of Assessment/Sales Ratios for all classes of property by subdivisions, election (tax) districts, from the annual June 30 Tax Tape for the past 4 years.<sup>2</sup>
- (2) Mean A/S ratios and measures of dispersion, by classes of property for the past 4 years by subdivision, district and county. Within classes of property (residential, apartments, etc.) means by sales price are also presented.<sup>3</sup>
- (3) Data on individual properties over a substantial period of time.
- (4) An analysis of the growth in the property tax base by Ira Epstein.<sup>4</sup>

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<sup>2</sup>Mr. Edward Rhinehart, Management Information Systems, Montgomery County, was most helpful and cooperative in preparing these distributions as well as the data on mean measures of dispersion. Since these distributions and measures had not been prepared or used before, a substantial amount of programming and checking was required.

<sup>3</sup>Mr. Larry Ford, an exceptionally competent statistician with Fairfax County, VA, was most helpful in clarifying a number of issues concerning the analysis of these data. In addition he carefully explained the way in which Fairfax County analyzes its assessment data and its most impressive use of data to help assessors to accurately assess property. What is most impressive is his knowledge of the limits of various computer approaches and the systematic monitoring of their assessments to improve accuracy.

<sup>4</sup>Ira Epstein, "Analysis of Growth in Montgomery County Real Property Tax Base," Research Document No. 10, Maryland National Capital Park and Planning Commission, August 1977. Dr. Ira Epstein is an economist with the Maryland National Capital Park and Planning Commission. We have used his analysis of growth to examine several issues and he has been most helpful in providing a variety of data we needed. In addition, he has generously provided consultation on a number of issues. We are most grateful for his help.

These sources of data are used to examine the general issue of accuracy and equity of assessments. It is useful to examine the general issue in the following steps.

- (1) Data on all sales in Fiscal Year 1977 are presented first to provide an overview of variation in A/S ratios within assessment (election) districts and the County for all property.
- (2) Differences in the assessment history of differing classes of property provide the best data on questions of accuracy and equity between differing classes of property such as residential, commercial/industrial, and apartments.
- (3) Data on mean A/S ratios and coefficients of dispersion provide data on the accuracy and equity of assessments within various classes of property and provide limited data on differences between classes of property.
- (4) Data on Accuracy of assessments by sales price provide data on the degree of regressivity of current assessments.

1. Accuracy and Equity of Assessments - An overview of variation in A/S ratios within districts and the County for all property for Fiscal Year 1977.

The June 30, 1977 tax tape which lists all sales and transfers of property for the July 1, 1976 - June 30, 1977 fiscal year, provides data on relation of assessments to sales.<sup>5</sup> The assessment divided by the sales price gives the Assessment/Sales price (A/S) ratio.

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<sup>5</sup>The assessment available is the one in the computer on June 30. Sales prices are based on revenue stamps paid.

One measure of accuracy of assessments is the degree to which A/S ratios vary, (a) within districts, (b) between districts, and (c) within the County.<sup>6</sup> Table III-1 shows the number of sales which had A/S ratios between 20 percent and 80 percent by district and for the County. This range was chosen because A/S ratios below 20 percent are often the result of sales which occurred prior to new buildings being assessed. Thus an A/S ratio below 20 may often reflect a valid sale but an assessment of only the land. There is no systematic procedure in the assessor's office to check on such aberrations and monitor these assessments. No one knows what the relationship is between sales prices and assessments for these properties the next year. Sales with high A/S ratios occur when an "arms length" transaction does not occur -- for example, in divorce settlements an unusually low "price" may be agreed upon to divide property.

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<sup>6</sup>We have reported the data on all sales which occurred in the respective years. Thus we are not dealing with samples but rather with the total population of all sales which occurred.

When we report differences in mean A/S ratios or coefficients of dispersion, they are real differences -- they summarize what actually occurred. Whether these statistics apply to or are representative of all property in the county, or in that district or subdivision or class of property can not be determined by these data since we do not have samples. We have only the total population of sales by county, district, class of property etc. These are the data we have reported and analyzed.

If these data show substantial differences -- or no differences -- those findings are real and accurate. But what anyone regards as a substantial difference or a trivial or a non-substantial difference is a matter of personal judgement.

How representative any of the means or coefficients of dispersion are for the population which were not sold in a given year can not be determined from these data since we do not have samples (only populations of properties and populations of sales). However, we noted in the analysis

TABLE III-1

DISTRIBUTION OF ASSESSMENT/SALES PRICE RATIOS  
FOR ALL PROPERTY

Election District	Number of Sales	Percent of Sales with A/S Ratios		
		Less Than 38%	Between 38%-44%	Greater Than 44%
1	159	28.3%	34.0%	37.7%
2	161	27.9	54.1	18.0
3	209	8.6	37.3	54.1
4	1,860	14.5	53.2	32.3
5	735	19.4	48.1	32.5
6	550	12.3	31.0	56.7
7	1,813	41.7	39.8	18.5
8	523	20.4	50.5	29.1
9	2,202	6.1	35.5	58.4
10	720	28.0	38.4	33.6
11	30	60.0	10.0	30.0
12	174	23.6	28.7	47.7
13	<u>3,787</u>	<u>12.7</u>	<u>45.1</u>	<u>42.2</u>
Total County	12,923	18.0	42.6	39.4

\* Excludes A/S ratios below 20% (1,847 or 12.2% of all A/S ratios) and A/S ratios greater than 80% (354 or 2.3% of all A/S ratios).

Source: MIS Tabulation

<sup>6</sup>Continued.

that in some classes of property many sales and a large proportion of all properties in that class sold each year, i.e., residential and condominiums. In that situation, the statistics are more likely to be "accurate" or "representative" indicators of the general situation or characteristics of the other properties of that type. In contrast, where there are very few sales (or they are highly skewed in terms of size) we noted that the averages are much less likely to be "accurate" or "representative" indicators of the general situation of other properties in that class or location, i.e., commercial-industrial property.

In every case the importance of relationships depends on the pattern of the relationships as well as the "size" or magnitude of the relationships.

In Election District 1, 159 sales occurred with A/S ratios between 20 and 80. 28.3% of these sales had A/S ratios below 38; 34.0% had A/S ratios between 38 and 44; and 37.7% had A/S ratios greater than 44. Thus in District 1 there was wide dispersion in the A/S ratios ... that is substantial inequity in assessments within District 1. Thirty seven percent of the properties that sold were paying taxes at least 12% higher than the 28.3% with A/S ratios below 38. Conversely, the 28.3% with A/S ratios below 38 were paying at least 12% less than the 37.7% with A/S ratios above 44.

The districts with the largest number of A/S ratios over 44 were Districts 9 with 58.4%, District 6 with 56.7% and District 3 with 54.1%. These are the districts with the largest number of properties which are over-assessed in comparison with other property. These districts have a high percentage of lower priced homes and condominiums.

The districts with the largest number of properties with A/S ratios below 38 (that is, those which are most underassessed relative to other property and other districts) - are Districts 7, with 41.7%, District 11, with 60% below 38.

Other districts which have large numbers both under and over assessed include Districts 1, 4, 5, 8, 10, 12, and 13. In summary, there are substantial variations in A/S ratios within and between Districts. For the County as a whole, 18.0% of the sales had A/S ratios under 38, while 42.6% were between 38 and 44 and 39.4% greater than 44.

2. Accuracy and Equity of Assessments Between Differing Classes of Property

As discussed earlier, assessments are a matter of judgment in which comparable sales, capitalization of income, and cost of construction approaches are used. The assessors have no ready access to income data for commercial and industrial properties, consequently, the assessors state that commercial/industrial property is assessed on a "cost of construction" basis.

However, when commercial/industrial assessments are appealed, as they often are, income data is often introduced by the appellant to alter the assessment on the basis of "capitalization of income." Large commercial/industrial properties' assessments are then determined by the Property Tax Appeals Board or the Court. But even when income data are presented, the assessors said they go back to the cost of construction for subsequent years.

In the past 6 fiscal years commercial/industrial property assessments as well as assessments of other classes of property (less new development) have appreciated as shown in Table III-2. During this period, the Boeckh Construction cost index for commercial and factory construction increased 54.2% and the residential construction cost index increased by 49.0%. Thus, the cost of commercial/industrial construction increase was 5% greater than for residences.

TABLE III-2

MONTGOMERY COUNTY APPRECIATION RATES BY CLASS OF PROPERTY<sup>7</sup>  
(New development is excluded)

	<u>Commercial Industrial</u>	<u>Apartments Condominums</u>	<u>Single-Family Residential</u>	<u>Consumer Price Index</u>
72-73	3.6	6.2	7.4	2.7
73-74	-4.8	-4.6	11.6	6.1
74-75	14.6	16.4	20.0	10.7
75-76	1.0	11.3	13.0	8.4
76-77	10.3	2.9	12.8	6.3
77-78	10.5	1.8	10.2	7.1
Percentage Change: FY72-73 to FY77-78	39.1%	37.5%	102.0%	48.9%

Yet assessments of commercial/industrial property increased only 39.1% while residential increased by 102.0%, or 2 1/2 times as much.<sup>8</sup> By contrast, in Fairfax County the percent change in assessed value of commercial and industrial property from 1970 to 1977 was 75.4% and for residential property was 75.2%.<sup>9</sup>

In 1975-76, when the cost of building materials was going up at a rapid rate (8.5%) and the consumer price index increased by 8.4%, and single

<sup>7</sup>Source: Ira Epstein, *op. cit.*, p. 16.

<sup>8</sup>Some might argue that residential values are differentially increased by the growth restrictions from the sewer moratorium. However, the sewer moratorium applied to all construction and presumably should have increased the value of all types of property. Differences of 2 1/2 times warrant careful examination.

<sup>9</sup>Memorandum from the County Executive, Leonard Whorton, to Fairfax Board of Supervisors, May 23, 1977, Attachment E, Comparison of Assessed Value Changes Commercial-Industrial Properties Versus Residential Property.

family assessments increased by 13.0%, commercial/industrial assessments increased by only 1.0%.

In 1976-77, the assessors began using the manual to help determine commercial/industrial assessments and this resulted in average assessment increases of 10.3%. Only one-third of these properties were reassessed physically in FY 1976-77. In FY 1977-78, another one-third were reassessed physically and the assessment increased by 10.5%, and the final third was reassessed for FY 1978-79 with an overall increase of 12.8%.

But the increases of these past two years do not begin to offset the underassessment of commercial property from 1972-73 through 1975-76, when commercial/industrial assessments increased about 15% over this 4 year period, while single family assessments increased almost 60%, or 4 times as much.

We believe this is clear and compelling evidence of substantial underassessment of commercial/industrial property.

Further insight into what has happened to commercial and industrial assessments can be seen by looking at a specific property -- a major department store in a large shopping center. Table III-3 shows the history of assessment from 1972 through 1977, during which there was no change in the building or land. Assessments have been adjusted for the change in the inflation allowance, for comparability with Table III-2.

For the period 1972-1977, the improvement assessment for this property grew only 14.7% while the Boeckh cost of construction index for residences increased by 49%, and for commercial and factory property, by 54.2%. The total assessment grew by 39.4% compared with the 102% growth in residential assessments for the same period.

TABLE III-3

ASSESSMENT HISTORY OF A DEPARTMENT STORE<sup>1</sup>

11.76 acres

<u>YEAR</u>	<u>LAND</u>	<u>IMPROVEMENTS</u>	<u>TOTAL</u>
1972	640,633	\$1,573,833	\$2,214,466
1973	743,125	1,575,837	2,318,962
1974	729,612	1,547,190	2,276,802
1975	845,620	1,756,500	2,602,120
1976	1,281,250	1,796,500	3,077,750
		(1,760,000) <sup>2</sup>	(3,041,250)
1977	1,281,250	1,805,200	3,086,450
Increase:			
1972-1977:	100%	14.7%	39.4%

<sup>1</sup> Assessments were to be 60% of true value in 1972 & 1973, 55% in 1974, and 50% in 1975, 1975 and 1977. For comparability, all assessments have been adjusted to 50% in this table.

<sup>2</sup> Revised assessment after appeal to PTAAB.

The assessment increases over the past 7 years for apartments and condominiums (Table II-2) (excluding new development) were only 37.5% from 1972-73 to 1977-78. During this period single family residences increased by 102.0%.<sup>10,11</sup>

<sup>10</sup> According to the assessors, condominiums and residences are primarily assessed using a "comparable sales approach" and apartments using an "income capitalization" approach.

<sup>11</sup> Source: Ira Epstein, op. cit., p. 16.

During this period the cost of construction index for apartments, hotels, and office buildings increased 49.9%<sup>12</sup>. However, as shown in Table III-2, the annual changes in assessments of existing apartments and condominiums appears to be erratic and unrelated to their cost of construction or any other variable.<sup>13</sup> They increased by 6.2% in FY 72-73; decreased by 4.6% in 73-74; increased by 16.4% in 74-75; by 11.3% in 75-76; 2.9% in 76-77; and only 1.8% in 1977-78.

A much closer analytical look at the assessment practices and procedures of existing apartments is urgently needed. The cost of construction for apartments has increased at about the same rate as residences, but the apartment assessments have increased at a much lower rate than even the cost of construction. Policies, procedures and practices in the assessment of apartments result in substantial inequities and must be revised and monitored. We believe this is another example of inequity between classes of property that results in homeowners, especially condominium owners, disproportionately paying property taxes.

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<sup>12</sup>During the period of time very few private apartments have been constructed (presumably because of the low rate of return and high costs of construction) consequently the cost of construction may not be the best measure of value for apartments.

<sup>13</sup>Unfortunately the assessment of apartments and condominiums can not be separated for data analysis in the early years. See 3. below for a detailed analysis of recent changes in assessments.

3. Accuracy and Equity of Assessments Within Various Classes of Property - Means and Coefficients of Dispersion

The Montgomery County annual tax tapes for the past 4 years were used to compute mean A/S ratios by subdivision, district and County for each class of property. Following the earlier analysis of the dispersion of A/S ratios by subdivision and district using the frequency distributions, we restricted this analysis to sales in which there were some improvements because it was believed that unimproved land required a different kind of analysis than what was possible with the data on the annual tax tape with the limited time and funds available. An analysis should be done of the sale of unimproved land, but it was not possible for us to do this with present resources. Secondly, we chose to limit these analyses to cases in which the A/S ratio was between 20 and 60 in order to exclude deviant cases that might skew or distort the basic relationships. (In an early test run, bounds of 20-80 were used and the results did not differ substantively.) This is a conservative choice of bounds and would tend to underestimate the degree of dispersion in actual A/S ratios.

What is a good assessment system? The mean A/S ratios should be the same within various classes of property.<sup>14</sup> To the extent that they vary from the average or mean, there is a problem of under and/or over-assessment -- a problem of inequity.

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<sup>14</sup> News Release, Fairfax County Government, May 20, 1977, Number 89/77, p. 2.

The coefficient of dispersion is a standard way of measuring variation from the average. Fairfax County in 1976 had a Countywide coefficient of dispersion of 5.12% for all classes of property. For some areas in that County they had a coefficient of dispersion as low as 2%. They have demonstrated that with a modern computerized system -- and with fewer assessors -- the coefficient can be reduced to about 5%. Our goal in Montgomery County should be 5% for the entire County.

a. Residential

Table III-4 shows the number of sales in Fiscal Year 1977 by election district and the mean A/S ratio for these sales, the standard deviation, and the coefficient of dispersion. The reliability of the analysis is dependent on the accuracy of the sales transactions in representing the average assessment-market price ratio for all properties within the respective class.

The overall countywide residential mean A/S ratio is 41.0 for the 9,698 cases. There are substantial variations in A/S ratios between districts ranging from 38.6 in District 7 to 43.6 and 44.1 in districts 6 and 3.<sup>15</sup> In three of the 13 districts (3, 6 and 9) the mean A/S ratio is at least 10% higher than in district 7 and 10. The within district average coefficient of dispersion is also high with the County average being 9.2% (and this is a very conservative estimate). With the use of computers to assist assessors, the average coefficient of dispersion for residential property should be under 5% since it is the easiest class of property to assess accurately.

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<sup>15</sup>District 11 had only 10 sales and A/S of 36.9.

TABLE III-4

EQUITY INDICATORS OF RESIDENTIAL PROPERTY ASSESSMENTS  
by District and the County for FY77

<u>District</u>	<u>Number of Sales*</u>	<u>Mean A/S Ratio **</u>	<u>Standard Deviation</u>	<u>Coefficient of Dispersion</u>
1	78	42.4	5.0	8.9
2	142	41.9	5.7	11.0
3	198	44.1	4.4	7.6
4	1,494	40.8	4.6	8.3
5	575	41.2	4.4	8.0
6	465	43.6	4.4	7.8
7	1,407	38.6	5.2	10.2
8	386	40.4	4.4	7.8
9	1,642	43.6	4.2	7.5
10	449	39.5	4.6	9.0
11	10	36.9	7.4	15.3
12	122	41.4	5.6	10.9
13	2,730	41.7	4.4	7.9
County	9,698	41.0	4.9	9.2

Source: MIS

\* 6.4% of the 150,839 residences sold in this fiscal year and had A/S ratios between 20 and 60.

\*\* Weighted means.

The Task Force's Committee on Accuracy of Assessments observed certain practices which may lead to wide variations in assessment ratios. First, relatively few sales may take place in the 18-month base period. There were instances where as few as 2 or 3 sales were used to determine the assessment increase for an entire subdivision. Second, considerable subjective judgment seems to be used in preparing the sales analysis. The assessors make references to the "uninformed buyer" as justification for deleting transactions with a higher-than-expected sales price from the sales analysis. Also, the sales analyses seem to be incomplete. The Committee found that:

- (a) they often include only some of the sales in the 18-month period;
- (b) some sales in an 18-month period are included in the data for one year, but are not included in the subsequent year's data (where they should have been) to do the next year's sales analysis -- with no explanation for this obvious inconsistency;
- (c) conversely, some sales are included in the following year, that were not included in the previous year (when they should have been).

The assessment process allows wide variations in assessment/sales ratios to persist. The Committee selected two subdivisions to illustrate this effect: Randolph Hills and Bannockburn Estates. The former is an example of a large tract subdivision with moderately priced

homes. (About \$40,000 in 1973-74). The latter is a subdivision of individually styled homes in the upper-middle price range (\$120,000 to 300,000 in 1973-74).

The sales analysis used to establish the 1976 assessment for Randolph Hills (Tab III-A) contains sales data for the latter half of 1973, and for 1974. The assessment/sales ratios before reassessment range from 40.2% to 55.4% with an average of 46.6%. After reassessment, the ratios range from 42.3% to 58.3% with an average of 49.0%. Thus, while the average has been raised, the spread of A/S ratios has not been reduced - if anything it has increased.

The sales analysis for Bannockburn Estates (Tab III-B) shows assessment/sales ratios before reassessment ranging from 28.8% to 57.6%, with an average of 41.8%. After reassessment, the ratios range from 37.2% to 62.8%, with an average of 48.3%. The wide variation in A/S ratios has been only slightly reduced by reassessment.

When the assessor finds an unusually low A/S ratio in his sales analysis of a subdivision, there does not appear to be a concerted effort to raise the assessment value to bring its A/S ratio closer to the mean value. This is most obvious in high-priced subdivisions. Table III-5 shows a number of examples over a seven-year period where a given residential property had a low A/S ratio at time of sale which remained low. The A/S ratios shown in this table are calculated using the sales price at time of sale (perhaps 5 to 7 years ago) and would be much lower for a more recent sale.

The reasons given by assessors for allowing such disparities to stand are discussed in Chapter IV, Section A 3.

TABLE III-5

EXAMPLES OF PROPERTIES WITH CONTINUED LOW A/S RATIOS

Subdivision	Location of prop.	Price (\$) Sale Date	Assessments (\$)			A/S Ratio Using Sale Price Shown & 77-78 Assessment
			75-76	76-77	77-78	
Arrowood	Lot 9, Bl. B	175,000 Oct. '73	62,360	67,220	71,820	41.0
Bradley Hills Grove	Lot 1, Bl. C	285,000 Sept. '74	71,950	84,260	90,080	31.6
Bealls Mount	River Road	240,000 Sept. '71	49,090	65,450	68,990	28.7 <sup>a)</sup>
Seven Locks Manor	Lot P4	170,000 May '74	46,630	67,880	71,390	41.9
Farmington	Lot P5 Bl. 2	300,000 Mar. '76			113,080	37.6
Rollingwood Terrace	Lot 21 Bl. C	180,000 Aug. 76	45,670	49,930	59,280	32.9
Rollingwood Terrace	Lot 30 Bl. B	235,000 Nov. '74	68,540	72,830	87,780	37.3
Burning Tree Estates	Lot 21 Bl. 12	234,200 Jan. '74	72,740	80,800	97,450	41.6
Bannockburn Estates	Lot 8 Bl. L	170,000 Jan. '73	55,750	66,950	77,870	45.8
Bannockburn <sup>b)</sup> Estates	Lot 2 Bl. J	290,000 July '73	83,440	170,740	125,620	43.3
Sumner Park	Lot 2 Bl. E	215,000 Apr. '72	55,750	66,950	77,870	36.2

a) 19 acres are farm assessment and 2 acres are homesite.

b) This property was assessed at \$81,290 in 73-74 and \$73,860 in 74-75 to reflect State assessment level changes that took place.

b. Condominiums

Eighteen percent of all condominiums in the County were sold in FY77, (Table III-6). Their mean A/S ratio of 44.7 was substantially higher than any other class of property. Average A/S ratios among condominiums varied widely from a low of 39.1 in District 7, to high ratios of 49.1, 48.9, 47.7, and 47.5 in Districts 5, 6, 8 and 12.

The overall coefficient of dispersion was high with the average being 9.0%. A modern computer assisted assessment system should have less than 4% dispersion among condominiums.

TABLE III-6  
EQUITY INDICATORS OF CONDOMINIUM PROPERTY ASSESSMENTS  
by District and County for 1977

<u>District</u>	<u>Number of Sales</u>	<u>Mean A/S Ratio*</u>	<u>Standard Deviation</u>	<u>Coefficient of Dispersion</u>
1	7	49.2		
4	261	45.0	4.6	7.7
5	76	49.1	3.7	6.2
6	23	48.9	1.9	3.1
7	331	39.1	6.3	13.6
8	61	47.7	2.7	4.3
9	516	46.4	5.1	7.2
10	179	46.1	3.5	5.5
12	13	47.5	1.9	3.2
13	<u>895</u>	<u>46.1</u>	<u>4.1</u>	<u>6.6</u>
Countywide	2,362**	44.7	5.4	9.0

Source: MIS

\* Weighted means

\*\* 18.3% of the 12,911 condominium properties were sold in FY77 with A/S ratios between 20 and 60.

Condominiums as a class have too high an assessment-market price ratio in comparison to other classes of property and this results in condominium owners paying higher property taxes in relation to property value.

c. Apartments

Seventy-four or only 6.2% of the 1,195 apartment buildings were sold in FY77. The average A/S ratio was 36.7. This is far below the average A/S for condominiums of 44.7 and of residential property of 41.0 (Table III-7).

The countywide coefficient of dispersion was 21.5, much greater than that for residential property (9.2) and condominium property (9.0). This indicates a large amount of variation in assessments within this class of property. Clearly, the assessment of apartments is among the most inequitable of all assessments.

TABLE III-7

EQUITY INDICATORS OF APARTMENT PROPERTY ASSESSMENTS  
by District and County FY77

<u>District</u>	<u>Number of Sales</u>	<u>Mean A/S Ratio*</u>	<u>Standard Deviation</u>	<u>Coefficient of Dispersion</u>
4	13	39.4	12.5	23.7
5	1	48.6		
7	6	31.1	4.4	13.0
9	4	31.7	6.8	19.7
13	<u>50</u>	<u>37.1</u>	<u>8.9</u>	<u>19.4</u>
Countywide	74**	36.7	9.5	21.5

Source: MIS

\*Weighted means

\*\*6.2% of the 1,195 apartment properties were sold in FY77 with A/S ratios between 20 and 60.

d. Commercial-Industrial

Only 2.1% of all commercial and industrial properties (103) sold in FY77.<sup>16</sup> Because small businesses which sold for less than \$150,000 made up the majority of all sales and these tend to be assessed higher than the more expensive commercial and industrial property, the A/S ratio is of limited comparative value. For example, gasoline service stations tend to turn over, whereas large businesses very seldom are sold.

Overall commercial-industrial property was assessed at an A/S ratio of 37.5 (Table III-8). Higher cost properties were also assessed substantially lower than lower priced property. This class of property appears to be seriously underassessed.

For a further discussion of commercial industrial assessment, see Section 2 above which presents historical data on assessments by class of property. That analysis is much more significant because 1) so little commercial-industrial property is sold in any year, and 2) that which is sold is the lower priced commercial-industrial small business, and 3) large commercial-industrial properties are virtually never sold.

Accurate and equitable assessment of commercial and industrial property requires much more effort. The current appeals process also requires better preparation of assessors and attorneys than at present.

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<sup>16</sup>When 10 properties which were in other classes, i.e., Non-Conforming (5), Plural Zoning (3) Special Exception (1), Town-Sector (1), were excluded, the mean commercial-industrial A/S ratio was 37.3.

TABLE III-8

EQUITY INDICATORS OF COMMERCIAL-INDUSTRIAL PROPERTY  
ASSESSMENTS BY SALES PRICE FY77

<u>Sales Price</u>	<u>Number of Sales*</u>	<u>% of Sales</u>	<u>Mean A/S Ratio **</u>	<u>Standard Deviation</u>	<u>Coefficient of Dispersion</u>
0-150,000	59	57.3%	42.2		
150,000-300,000	18	17.5%	38.4		
300,000 +	26	25.2%	35.7		
Countywide	103	100.0%	37.5	10.2	23.1

Source: MIS

\* Only 2.1% of the 4,868 commercial and industrial properties were sold in FY77 with 74.8 percent having sales prices below \$300,000.

\*\* Weighted means.

e. Farm Assessment 1977

Only 30 of 2,141 farms (1.4%) were sold in 1977. Of these thirty, only 12 which sold for over \$150,000, are likely to be true farms. The others are classed as farms but are more likely to be small parcels to be developed.

The mean A/S ratio was 18.4 - much lower because of the farmland assessment - than any other class of property. For this reason we included A/S ratios with improvements between 10 and 60 for this analysis. (Those with no improvements (buildings) were excluded.)

But even here there is substantial inequity with an average variation of 39.4% in the assessments of the farms. (Table III-9).

Five pieces of farmland which sold for \$75,000 to \$100,000 had an A/S ratio of 33.8, while all other pieces had A/S ratios near 20. The 12 largest sales had an A/S ratio of only 16.6.

TABLE III-9  
EQUITY INDICATORS OF FARM PROPERTY ASSESSMENTS  
BY SALES PRICE FY77

<u>Sales Price</u>	<u>Number of Sales *</u>	<u>Mean A/S Ratio **</u>	<u>Standard Deviation</u>	<u>Coefficient of Dispersion</u>
0-50,000	4	27.2		
50,000-75,000	3	22.2		
75,000-100,000	5	33.8		
100,000-150,000	6	20.1		
over 150,000	<u>12</u>	<u>16.6</u>		
Countywide	30	18.4	11.2	39.4

Source: MIS

\* Only 1.4% of 2,141 farm properties sold in FY76-77 and they had A/S ratios between 10 and 60. Farm properties without improvements (buildings) were excluded.

\*\* Weighted means.

f. Summary by Classes of Property

	<u>Mean A/S</u>	<u>Coefficient of Dispersion</u>
Farm	18.4	39.4
Apartments	36.7	21.5
Commercial-Industrial	37.5	23.1
Residential	41.0	9.2
Condominium	44.7	9.0

There are substantial differences in the average A/S ratios by differing classes of property. This means that there are substantial inequities in the taxation of differing classes of property. There are also substantial variations in the assessments within each class of property. Fairfax County has achieved a countywide coefficient of dispersion of only 5% for all classes of properties combined. In Montgomery County, the coefficient of dispersion by class is: residential, 9.2; condominium, 9.0; apartment, 21.5; commercial-industrial, 23.1; and farm, 39.4. (Montgomery County has no class of property even close to 5%, and the overall COD would be higher than the residential one.)

#### 4. Accuracy of Assessments and Sales - Regressivity

As the sales price of residential, condominium, and commercial-industrial properties increase, the average A/S ratio decreases (Table III-10). This means that higher priced homes, condominiums, and commercial-industrial property in effect have a lower property tax rate than lower priced properties. The present assessment system is regressive.

A rough estimate of the magnitude of this regressivity is shown in Table III-11. If one assumes that the distribution of sales in FY77 is representative of all residential property in the County, one can estimate the amount of taxes paid by each of the sales price categories with their average A/S ratio (Column 6). We can compare the amounts each price category would pay if all categories were assessed with the same average A/S ratio of 41%.

Column 9 gives a very rough estimate of the dollar amount of "over" or "under" payment by each residential unit. The estimates range from an "overpayment" of \$46.80 to an "underpayment" of \$168.01.

TABLE III-10  
A/S RATIOS BY SALES PRICE AND PROPERTY CLASS. (FY77)

Residential Sales		
<u>Sales Price</u>	<u>Number of Sales</u>	<u>Mean A/S</u>
0-50,000	2422	43.6
50,000-75,000	4084	42.1
75,000-100,000	1909	40.9
100,000-150,000	1006	38.8
150,000 +	<u>277</u>	<u>38.2</u>
	9698	41.0
Condominium Sales		
0-35,000	756	48.3
35,000-50,000	932	46.6
50,000-75,000	530	44.0
75,000 +	<u>144</u>	<u>35.8</u>
	2362	44.7
Commercial-Industrial Sales		
0-150,000	59	42.2
150,000-500,000	18	38.4
500,000 +	<u>26</u>	<u>35.7</u>
	103	37.5

TABLE III-11

1977 RESIDENTIAL PROPERTY TAX PAYMENT ANALYSIS BY PRICE RANGE

1	2	3	4	5	6	7	8	9
Sales Price Range	Number Sales Rptd.	% of Total Sales	Est. No. Prop. Accts in Price Range	Average A/S Ratio	Est. Aggregate Taxes <sup>2</sup> Paid by Group (\$)	Est. Aggregate Tax Rqmt. (if paid at A/S = 41% rate) (\$)	Est. Aggregate Difference from Tax Rqmt. @ 41% Rate (\$)	Est. Average \$ Over/Under Payment per Residential Unit (+ or -)
0-50,000 (use 45,000 average)	2422	25	37,710	43.6%	29,594,611	27,829,795	+1,764,816	+46.80
50,000-75,000 (63,000 average)	4084	42	63,352	42.1	67,211,807	65,443,009	+1,768,798	+27.92
75,000-100,000 (88,000 average)	1909	20	30,168	40.9	43,441,632	43,538,169	- 96,537	- 2.76
100,000-150,000 (125,000 average)	1006	10	15,084	38.8	29,262,766	30,921,995	-1,659,229	-110.00
150,000- and above (150,000 average)	277	3	4,525	38.2	10,371,690	11,131,918	- 760,229	-168.01
Grand Total or Average	9698	100	150,839	41.0	179,882,506	-	-	-

<sup>1</sup> Assumes all properties are distributed in the same proportion as those sold in FY77.

<sup>2</sup> Based on assumed countywide average tax rate of \$4.00 per \$100 of assessed value using the median value shown in ( )

TAB III-A

STATE DEPARTMENT OF ASSESSMENTS AND TAXATION

SALES ANALYSIS REPORT

DISTRICT 4-05

SUBDIVISION Randolph Hills

LEVY YEAR 75

TOTAL ACCOUNTS 973

LEVY YEAR OF LAST REASSESSMENT 75

DESCRIPTION				BEFORE		AFTER		REMARKS
LOT	BLK	DATE	SALE PRICE	ASSESSMENT	RATIO	ASSESSMENT	RATIO	
2	4	7/11/74	41,500.	12940	45.6	19880	47.9	
2	7	8/20/74	41,000.	19260	46.9	20300	49.5	
<del>24</del>	<del>A</del>	<del>2/7/74</del>	<del>42,500</del>	<del>14310</del>	<del>45.4</del>			Not Available
44	B	6/28/74	45,000.	18110	40.2	19030	42.3	
31	3	4/13/74	40,000	17270	44.6	18805	47.0	
32	E	4/19/74	41,500.	20050	48.3	20990	50.5	
76	2	5/13/74	38,500.	17900	46.9	18930	49.7	
65	2	2/26/74	43,500	21240	48.8	22370	51.4	
2	13	5/11/74	41,000	18490	45.1	19320	47.1	
56	2	4-23/74	41,000	20180	49.2	21120	51.5	
17	7	9/4/74	43,500	19750	45.4	20700	47.5	
80	2	3/15/74	42,000.	18720	44.5	19650	46.7	
4	D	3/11/74	39,500	18650	54.0	19480	56.4	
28	3	7/31/74	49,000	22760	46.4	23950	48.8	
24	9	8/2/74	44,500	19210	44.5	20940	46.8	
1	14	9/5/74	43,500.	19760	45.8	20900	48.0	
1	R	7/31/74	42,500	19250	45.2	20210	47.5	
(	8	6/28/74	40,000	19530	48.8	20570	51.4	
36	13	3/26/74	43,000.	19840	46.1	20770	48.3	
38	15	6/22/74	39,000	18210	46.7	19050	48.8	
16	14	5/17/74	25,000	18440	73.7			too much out
11	15	6/28/74	41,500	19600	47.4			Duplication
<del>30</del>	<del>15</del>	<del>5/26/74</del>	<del>45,000</del>	<del>19890</del>	<del>46.1</del>			Duplication
18	14	6/21/74	43,500	17840	41.0	18670	42.9	
<del>37</del>	<del>15</del>	<del>6/28/74</del>	<del>39,000</del>	<del>18210</del>	<del>46.7</del>			Duplication
16	9	5/11/74	25,000	18440	73.7			Duplication
11	15	6/28/74	41,500.	19660	47.4	20510	49.4	
6	8	9/22/74	44,000.	20020	45.5	21160	48.0	
7	11	7/31/74	44,000.	14280	43.8	20316	46.1	
22	11	5/13/74	40,000.	14470	48.8	20500	51.2	
21	3	6/19/74	42,500	18980	44.4	19820	46.6	
6	9	4/18/74	42,500	19320	45.4	20350	47.8	
11	D	2/28/74	42,000.	17860	41.7	18890	44.9	
8	15	8/1/74	43,000	14,770	45.9	20620	47.9	
60	2	1/15/74	40,000.	21240	53.1	22370	55.9	
23	C	1/10/74	41,000	19800	48.3	20734	50.5	
12	2	9/19/74	48,000	19460	40.5	20400	42.5	
25	13	6/7/74	42,500	18740	44.1	19770	46.5	
15	4	4/17/74	37,500	18400.	49.1	19450	51.8	
3	15	5/15/74	40,500	18,900.	46.7	19730	48.7	
32	D	3/21/74	40,500.	19,840	48.9	20680	51.0	

BEFORE REASSESSMENT:

AVERAGE RATIO 46

AFTER REASSESSMENT:

AVERAGE RATIO 47.9

STATE DEPARTMENT OF ASSESSMENTS AND TAXATION

SALES ANALYSIS REPORT

DISTRICT 4-05 COND. SUBDIVISION Randolph Hills LEVY YEAR 76

TOTAL ACCOUNTS 973 LEVY YEAR OF LAST REASSESSMENT 75

LOT	DESCRIPTION			BEFORE		AFTER		REMARKS
	BLK	DATE	SALE PRICE	ASSESSMENT	RATIO	ASSESSMENT	RATIO	
1	7	6/21/74	43,000	20,300	47.2	21,450	49.8	
8	7	11/21/74	37,000	14,830	50.8	20,860	53.4	
30	6	4/7/74	43,000	19,580	45.5	20,620	47.9	
7	6	3/12/74	7,000	18,480	271.1			Distance 5 to main block
3	3	12/17/74	44,000	19,180	43.5	20,020	45.5	
9	10	12/13/74	42,000	19,430	46.2	20,480	48.7	
7	3	12/6/74	42,000	19,470	46.3	20,500	48.8	
8	5	10/22/74	38,500	18,710	48.6	19,250	51.3	
7	5	12/20/74	44,000	21,070	47.8	22,210	50.4	
34	C	10/9/74	47,500	19,720	41.5	20,750	43.6	
30	15	2/22/74	42,500	18,850	44.3	19,790	46.5	
3	6	11/15/74	44,000	19,680	44.7	20,720	47.0	
9	10	1/5/74	44,500	19,920	44.7	20,150	47.0	
5	8	9/13/74	46,000	20,960	45.5	22,090	48.0	
1	7	18/27/74	47,500	20,650	43.4	21,790	45.8	
8	4	10/22/74	44,000	19,510	44.3	20,540	46.6	
	2	10/23/74	48,000	20,670	43.0	21,810	45.4	
	3	1/8/74	39,500	18,450	46.7	19,380	49.0	
	10	9/20/74	38,500	19,790	51.4	20,730	53.8	
5	14	11/1/74	40,000	17,740	44.3	18,670	46.6	
	9	10/14/74	40,000	20,640	51.6	21,680	54.2	
	6	10/13/74	43,000	19,300	44.8	20,230	47.0	

BEFORE REASSESSMENT: AVERAGE RATIO 46.6

AFTER REASSESSMENT: AVERAGE RATIO 49.0



TAB III-B

STATE DEPARTMENT OF ASSESSMENTS AND TAXATION

SALES ANALYSIS REPORT

DISTRICT 7-C

SUBDIVISION BANNOCKBURN ESTATES

LEVY YEAR 1975

TOTAL ACCOUNTS 187

LEVY YEAR OF LAST REASSESSMENT

DESCRIPTION				BEFORE		AFTER		REMARKS
LOT	BLK	DATE	SALE PRICE	ASSESSMENT	RATIO	ASSESSMENT	RATIO	
<b>1973 SALES DATA</b>								
8	L	1-73	170000	55750	32.8%	66950	39.4%	Rambler F.B.
2	J	2-73	290000	83440	28.8%	107740	37.2%	Rambler F.B.
9	G	8-73	130000	53500	41.2%	61590	47.4%	2STY F.B.
22	E	9-73	156000	62760	40.2%	71560	45.9%	2STY P.B.
11	D	5-73	136500	69970	51.3%	75760	55.5%	2STY P.B.
8	E	3-73	115000	57400	49.9%	68100	59.2%	2STY ATTIC F.B.
6	E	3-73	120000	58250	48.5%	68250	56.9%	2STY ATTIC F.B.
9	N	8-73	169500	75220	44.4%	86210	50.9%	2STY ATTIC P.B.
21	E	5-73	150000	78310	52.2%	93910	55.9%	2STY ATTIC F.B.
				3893 ÷ 9	43.2%	4481 ÷ 9	49.7%	
<b>1974 SALES DATA</b>								
7	A	5-74	165000	58190	35.3%	67980	41.2%	Rambler F.B.
21	EYE	1-74	232000	75390	32.5%	97350	42.0%	Rambler P.B.
5	E	1-74	175000	100860	57.6%	109930	62.8%	2STY F.B.
N	E	8-74	193000	71820	37.2%	84020	43.5%	2STY F.B.
K	N	4-74	190000	63610	33.5%	75110	39.5%	2STY ATTIC P.B.
				1961 ÷ 5	39.2%	2290 ÷ 5	45.8%	
<b>Summary DATA</b>								
Sales 1973				3893 ÷ 9	43.2%	4481 ÷ 9	49.7%	
Sales 1974				1961 ÷ 5	39.2%	2290 ÷ 5	45.8%	
<b>TOTALS</b>								
19 SALES				5854 ÷ 14	41.8%	6771 ÷ 14	48.3%	

BEFORE REASSESSMENT: 5854 ÷ 14  
 AFTER REASSESSMENT: 6771 ÷ 14

AVERAGE RATIO  
 AVERAGE RATIO

## CHAPTER IV

### ASSESSMENT METHODS AND PROCEDURES

#### A. Residential

Residential assessment practices in Montgomery County have undergone several changes since 1970. It is important to understand these changes in order to interpret the trend of particular property assessments.

In 1971, the new assessment manual was introduced by the State Department of Assessments and Taxation. It provided a standard method of estimating the reconstruction cost of a property based on cubic feet of living space. Initially, improvements were assessed strictly according to the manual, and sufficient value was attributed to the land to bring the overall assessment into agreement with average market prices in the subdivision. (This is frequently referred to as assessing land as a residual.)

After several years, it was noted that in Montgomery County, at least, this method produced unreasonably high land values for certain models of homes which were in high demand. The assessment office then adopted (informally) a new approach. Land assessments were to be adjusted to comprise approximately 30% of the total property value, and the "cubic foot factor" used in valuing improvements is adjusted for certain house models to obtain an average level of assessments comparable with sales data.

As a result of a court order, an annual assessment of every property was instituted in 1974, whereas previously one-third of all properties were reassessed each year. This resulted in the adoption of two different types of residential assessment procedures. Each year, one-third of the properties are subjected to a physical review (i.e., a visit to the property)

and a complete reassessment using both reconstruction cost analysis and sales data. The other properties are reassessed simply by applying to the previous year's assessment an increase factor for land and an increase factor for improvements, based on sales data. These two methods are described briefly below, using the 1978 levy as the example. FOR THAT LEVY, THE ALLOWANCE FOR INFLATION WAS 50%, THOUGH IT HAS SINCE BEEN CHANGED TO 55% FOR OWNER OCCUPIED RESIDENCES. FOR CONSISTENCY IN THIS CHAPTER, THE 50% FIGURE IS USED THROUGHOUT SINCE NO DATA WAS AVAILABLE ON ASSESSMENTS USING THE 55% FACTOR.

1. Assessment Based on Physical Review

A sales analysis is prepared by hand for each subdivision, using data recorded by the clerical division at the time of sale which includes the sale price based on revenue stamps. The assessor lists all sales in the subdivision in two groups -- those which occurred during the last 6 months of 1975, and those which occurred during 1976. Since this work begins early in 1977, the assessor does not include 1977 sales in the analysis. The "market value" for the 1978 levy is therefore based on sales in 1975 and 1976 -- sales which are twelve to thirty months prior to the December 31, 1977, "date of finality."

Sales which, in the judgment of the assessor are "out of line" are crossed out, based on the assumption (which may or may not be verified) that it was not an "arm's length" sale, that a significant amount of furnishing or other items may have been included in the sale price, or that an "uninformed" buyer or seller was involved. No statistical criterion is used to determine when a sale is "out of line." Several examples are shown in TAB IV-A, pages 2 and 3.

Using the assessment/sale ratio for each remaining property, the mean assessment/sale ratio for each group is calculated. In most subdivisions the ratios will be below 50%, since the assessments are based on sales which are, on the average, one year earlier. This gives the assessor a general idea of whether, and how much, the average assessment in the subdivision must be increased to approach the goal of 50% of market value.

Next the assessor develops a set of price factors for land in each subdivision based on land area in square feet. The highest rate per square foot is assigned to the minimum size building lot in the subdivision, as limited by zoning restrictions. Additional land above the minimum size lot is assessed at a lower rate. This is illustrated in the Summary Sheet, TAB IV-A. The rates are set in an attempt to bring land assessments close to 30% of the overall assessed value. Where there is more than one zoning in a subdivision, rates are further constrained to yield the same value for equal sized lots regardless of which zone they are in. These rates are used to determine the value of each lot in the subdivision. The value is then reduced by 50% to determine the land assessment.

The assessor visits each property to verify the physical information on the assessment worksheet. He then computes the reconstruction cost of improvements, using the Maryland Assessment Manual as a guide<sup>1</sup>--

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<sup>1</sup>Some observers have questioned why the assessor bothers at all with a complex and sometimes controversial reconstruction cost estimate when, in fact, assessments are based almost entirely on market value. The answer appears to be threefold:

- a. In some areas, sales are too few to establish a market value for each type of property -- particularly in areas of custom built homes.
- b. Use of reconstruction costs helps establish uniformity of assessments within a subdivision.
- c. The law is interpreted as requiring that assessments be based on consideration of all applicable valuation methods.

the manual calls for the following steps:

a. Determine the grade of the dwelling, type of exterior walls, perimeter, square foot of ground floor area of the house, and cubic feet of interior space.

b. Determine a rate for the cost of construction per cubic foot for Baltimore City in 1970, using a table in the manual. The rate is based on the quality of construction, the type of residence (e.g., wood siding), the perimeter and the square foot ground floor area of the house.

c. Multiply the rate by the cubic feet of interior space.

d. Add cost adjustments for deviations from the "standard" residence of that type and quality, e.g., additional baths, air conditioning, fireplace. These deviations may increase or decrease the value. In-ground swimming pools, tennis courts and permanent out-buildings are assessed as improvements. Landscaping, fences, and circular driveways are not assessed.

e. Multiply the total cost obtained by an index which relates Montgomery County and the current assessment year to the cost for Baltimore City in 1970. For example, the index for Montgomery County for January, 1976, was 160.3 for frame construction and 160.0 for brick construction. The index is furnished by the State assessment office each year. The January 1, 1977, index is used for the 1978 tax levy.

f. Reduce the resulting reproduction cost by a depreciation factor.

g. Take 50% of the resulting depreciated reproduction cost to get the assessment on the improvements.

The method of assessing reconstruction cost just described is, with one exception, in accord with current appraisal practice. The exception is the use of a cubic foot factor; most appraisers now use a square foot factor. The state of Maryland is revising the assessment manual to use a square foot factor.

Some confusion has been introduced by the practice of adjusting the cubic factor when, in the judgment of the assessor, the factor in the manual does not reflect current market conditions. The citizen who obtains his worksheet and discovers that the factor is higher than that specified in the manual feels either that a mistake has been made, or that he is being "ripped off." An explanation by the assessor that the manual is "just a guide" or that the assessor must "use his judgment" is not a very satisfying response.

The process by which the assessor decides that such factors must be adjusted is a complex one, and the uniformity with which such adjustments are applied is not readily visible. It would be helpful if the assessor would retain, along with his sales analysis, a record of the analysis leading to his decision to depart from the factors prescribed in the manual and an identification of the properties (or types of property) to which the adjusted factor was applied.

Once assessments have been completed for each property in the subdivision, the assessor enters in the "after" column of the sales analysis form the new assessment for those properties which sold in the

base period, and the corresponding assessment/sale ratio. The average ratio for the subdivision is again computed. The Field Supervisors use this "after" average to determine whether the assessor has achieved the desired ratio of assessment to market value in the subdivision.<sup>2</sup>

Figure IV-1 shows the comparisons made to determine the "before" and "after" assessment/sale ratios, and the actual ratio which would be computed by comparing the assessment in force with sale price at the time a property is sold. It should be noted that the "after" assessment/sale ratio is computed with respect to a base period which is 12 to 30 months prior to the date of finality. Although assessments are supposed to reflect "full cash value" on the date of finality, they actually reflect "full cash value," on the average, 21 months prior to that date (the midpoint between 12 and 30). As a result, assessment/sale ratios computed on an "actual" basis (i.e., assessments in force at the time the property is sold) may reflect differences due to different inflation rates during the intervening years. These differences make it very difficult to interpret apparent inequities when assessment/sale ratios are compared on the "actual" basis, as we have done in Chapter III. It is difficult to tell whether the degree of regressivity observed, for example, results primarily from different inflation rates. As will be discussed later, we believe that steps can and should be taken to reduce this time lag and the consequent differences in assessment/sale ratios as of the date of finality.

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<sup>2</sup>The fact that before and after ratios are almost identical in the Kenwood Subdivision, TAB IV-A, is unusual. In the past few years, the "before" assessment/sale ratio has been in the vicinity of 40% and substantial assessment increases have been required to achieve the target of about 47%.

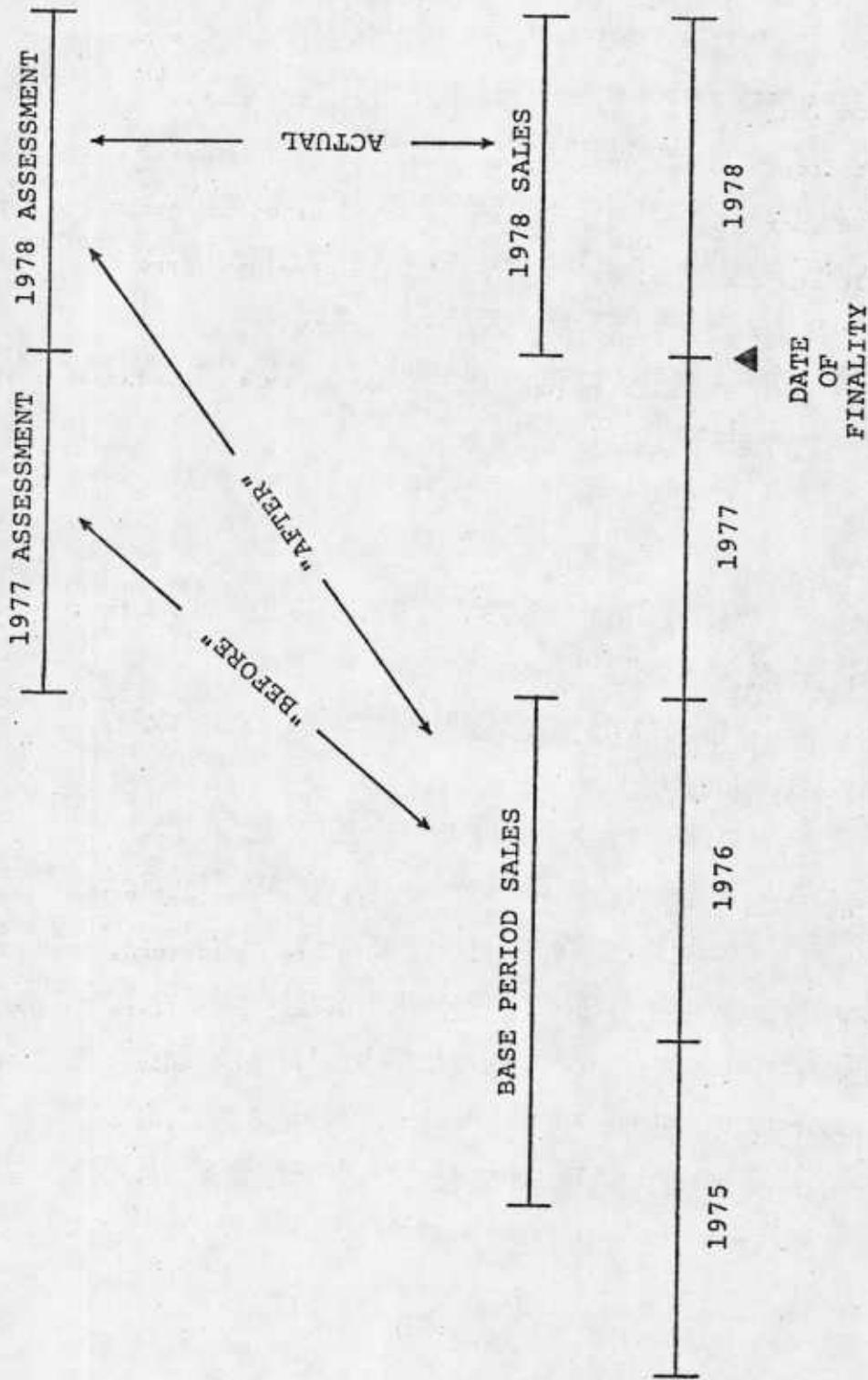


FIGURE IV-1  
ASSESSMENT/SALE RATIOS

2. Assessment Based on Previous Assessment

Only one-third of the subdivisions are scheduled for physical review each year and assessed as described above. For the other two-thirds, assessments are increased using an increase factor for land and an increase factor for improvements applied uniformly to every property in the subdivision. The factors are developed from a "before" sales analysis similar to that described above.

The factors are established to meet, insofar as possible, three conditions:

- a. Approximately 30% of the overall value assessed against land.
- b. Overall assessment/sales ratio of 47% for the full year (1976) sales group.
- c. Overall assessment/sales ratio of 50% for the half year (1975) sales group.

Since it may not be possible to meet both b and c, the assessor leans toward the group with the greatest number of sales.

Once these increase factors are determined, they are applied to the previous (1977) assessment for all properties in the subdivision. No further review of those properties is made unless changes in the property have been brought to the attention of the assessor via, e.g., building permits. In those cases, the replacement cost analysis will be reviewed and further adjustments to the assessment may be made.

### 3. Potential Sources of Inequity

Whether these procedures are capable of yielding equitable assessments depends on the definition of equity. Unfortunately, the law and the guidance from the courts and the state do not define equity with sufficient precision to allow a definitive evaluation of the procedures used.

One view of equity is that all assessments should bear the identical ratio to the market price of the property. In this view, any disparity in assessment/sales ratios between different properties is ipso facto inequitable. The price at which a property sells is presumed to be the best available measure of its "full cash value" unless some specific defect in the transaction can be shown.

Residential assessors in the Montgomery County office act in the belief that the market price is an unreliable indicator of value for any individual property. The price in an individual transaction may be affected by a lack of information by the buyer or seller, by time pressures (or lack thereof), or by particular and temporary matters of buyer preference. Market prices must be averaged over many transactions before they have validity. Market prices can therefore be used only to establish the level of assessment of a group of properties. Individual property assessments must be established based on such tangible factors as lot size and characteristics of the improvement, so that any difference in assessment between nearby properties can be defended based on tangible differences. This, in the assessor's view, is essential for equity.

The methods and procedures used by the assessor's office in Montgomery County clearly reflect this belief. These procedures produce results which appear inequitable to an observer who holds the former view of equity, i.e., value equals market price. For example, when a property sells at a price which reflects an abnormally low assessment/sale ratio, no effort is subsequently made to raise the assessment on that property. Assessors consider that such an action would penalize the properties which turn over, relative to properties which are not sold.

We recognize the reasons which cause the assessor's reluctance to use a sale price as the sole basis for an assessment. Nonetheless, we believe that the assessor should not allow low a/s ratios on individual properties to persist without careful investigation of the factors involved in the sale and the present characteristics of the property.

As discussed previously in the chapter on Accuracy of Assessments, higher priced properties tend to have lower assessment/sales ratios than lower priced properties, when ratios are computed at time of sale. Apart from the possibility of different inflation rates, as discussed above, there are two factors which may bring this about:

- a. There are fewer sales of higher priced properties, and assessors are more conservative in assessing them (i.e., they do not go as close to 50% when sales are few).
- b. There are more un-assessed values (such as landscaping, circular driveways, fences, storm windows and doors, additional insulation) associated with the higher priced properties.

We believe that these factors should not result in higher valued homes having lower assessment/sales ratios. Procedures should be revised to eliminate these factors which give favorable treatments to higher priced homes, except as prohibited by law.<sup>3</sup>

#### 4. Alternative Approaches to Mass Appraisal

Professional appraisal of real property according to approved textbook methods requires several hours per property. The appraisal of hundreds of thousands of properties annually obviously requires shortcuts. Three relatively "pure" mass appraisal techniques are described below. Each of these methods implies a different standard of equity.

Any evaluation of the assessment system will be influenced by which of these methods the evaluator considers the "fairest." In the absence of an assessment standard clearly defined in the law, actual assessment systems tend to combine these approaches, often in indirect and obscure ways. However, any attempt to improve the mass appraisal system by making it more "pure" should recognize the fundamental conflicts between these approaches and the associated concepts of equity.

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<sup>3</sup>Senate Bill 858, which became law in 1978, provides that the additional costs of solar heating, over the cost of conventional heating, shall not be assessed in buildings containing both. This will create a disparity in a/s ratios for units so equipped which is likely to "favor" higher priced homes. Thus, uniformity of assessments related to market value is being foregone to an extent to meet a public policy goal of encouraging energy conservation. In addition, the law stipulates (Article 81 Section 19(a)(12) that expenditures for normal repairs and maintenance may not be assessed. Hence, recent repairs such as a new roof, replacement of gutters, electrical rewiring, painting and redecorating may not be assessed, though these items can affect the sale price.

a. Assessment Based on Sale Price

The assessment for each property could be based on its most recent sale price, adjusted by a price inflator since the year of sale. The price inflator could be computed on a subdivision by subdivision basis, but there would be advantages in administration if a county-wide inflator could be used. (The boundaries used for computing subdivision inflation rates are controversial, particularly when sales in the basic subdivisions are few.) When a property has never been sold, (e.g., when the owner builds a house on an empty lot), or when the assessor believes that the sale price is too low because of a defect in the transaction (not arm's length), the price of comparable properties could be used to set the assessment. Sale prices which are too high for one reason or another would be adjusted when the property owner supplies reasonable grounds in an appeal proceeding.

This method would eliminate the biases which produce lower assessment ratios on higher valued properties, and would also eliminate the persistence of ratios which are "out of line" when the property is sold. The effects of a favorable ruling on appeal would normally affect the basic sale price benchmark, and thus all future assessments, until the property is again sold.

The principal problem with this approach is lack of uniformity. Assessments of identical properties will be identical only if they are sold under identical market conditions. There are obviously a variety of market conditions which can influence the price of an individual sale.

b. Assessment Based on Characteristics of the Property

Another approach would be to base assessments only on property characteristics. A formula could be developed for land, and another for improvements, and all properties could be assessed using the formulas. Individual sale prices would be ignored.

This approach achieves the ultimate in uniformity, in that identical properties will always have identical assessments, and any difference in assessments would be directly traceable to differences in location or physical features. An appeal would have lasting effect only if it resulted in a change in the description of the physical characteristics of the property, or a change in the formulas used for all properties. Variations in assessment/sale ratios due to intangible factors or market conditions would not be considered "inequities."

c. Benchmark Appraisal Plus Inflator

This approach is similar to the sale price method, except that a carefully executed benchmark appraisal would be used as the base, which would be increased by an inflation factor year after year, regardless of whether the property sold. Physical review would be performed, and the benchmark changed, only after some modification to the property. This might avoid some of the arguments about the validity of market prices, and would avoid year to year fluctuations in the treatment of the property due to variations in assessment formulas and practices. Successful protests to the benchmark appraisal would have lasting effect.

## 5. Combining Approaches to Mass Appraisal

The assessment system now in use in Montgomery County combines features of all three of the approaches described above. Thus, it yields neither perfect uniformity, nor consistent assessment/sales ratios. Lacking a clear legislated standard of value, and given the need to assess all properties every year, it is unlikely that the system can be reduced to a single approach. It would be desirable, however, to reduce the degree to which the assessor achieves a compromise among these methods by judgments and calculations which are not documented.

A useful example of how this can be done is provided by the Fairfax County computer assisted assessment system. In Fairfax County, Virginia, a computed-based system produces proposed assessments by three different methods:

- a. A market based multiple regression analysis,
- b. a uniform reconstruction cost formula, and
- c. a time trend analysis.

All three estimates are recorded for each property, and the assessor then makes a final judgment using all available data plus the three estimates. The assessor uses his knowledge of each geographical area to determine which of the assessment methods is most relevant to the particular situation in that neighborhood.

The Fairfax County system has distinct advantages relative to the system used in Montgomery County. Each individual assessment method is carried out in a straightforward way. The pertinent data

is recorded and the prescribed formulas are applied in a way which can be checked if desired. No attempt is made to judgmentally adjust estimating factors to force the methods to produce identical results. Judgment is finally applied, but the range over which judgment has been applied is clearly and visibly bounded. Anyone of average intelligence can comprehend how the assessment is calculated, and where the judgment is applied. In Montgomery County, by contrast, judgment is applied at numerous points, sometimes without recording the pertinent data, and almost always without any clear evidence of the magnitude of its effect. Assessors judge which sales to exclude from the sales analysis; what fraction of the assessment should be attributed to land; whether the various construction cost factors are applicable or should be modified; how close to 50% the assessment/sales ratio should be for each subdivision, and so forth. It is almost impossible for the property owner to determine the reasonableness of these judgments, and this committee has found it impossible to ascertain how uniformly they are being applied. Accordingly:

We recommend that the County Supervisor of Assessments use objective statistical techniques for the appraisal process, document the range of possible appraisals of each property, and make explicit the nature and effect of judgments made by the assessor in arriving at a final assessment. This approach makes much clearer the range of uncertainty involved in assessing each property, how arguments stressing market versus cost approaches affect the appraisal, and what standard the assessor applied in making the final

assessment. None of these factors is clear to the property owner under the assessment system currently used in Montgomery County.

B. Commercial

The Cost Approach as detailed in Volume II of the Assessor's Manual is used primarily in the appraisal of stores, shopping centers, office buildings, and other commercial properties. The cost approach is not the best method of valuing store or office property and is really only applicable to owner-occupied stores or offices or unique and unusual buildings not generally held for rent such as a courthouse or municipal building. The cost approach, which tends to give a higher value, is checked against sales when available.

The assessment file on Wheaton Plaza which was used as an example of a typical shopping center indicated the number of square feet in each different type of building (e.g., supermarket, department store, office building, etc.). Each specific segment of the entire shopping center is valued for replacement cost when physically reviewed every third year. These figures are updated using the time/location multiplier for Montgomery County for the latest year. An amount representing accrued depreciation is determined by the individual assessor's personal observation using the guidelines in the Assessor's Manual. This is subtracted from the replacement cost to get full fair market value for the buildings and other improvements. Fifty percent of this is the next year's assessment.

Land value, according to the assessors, is determined by adjusting sales of other commercial land similarly zoned in the same subdivision or election district if enough sales are available. These sales are adjusted for time, location, size, frontage, etc., and used to determine a value for the property being appraised. Multiplication by 50% yields the current land assessment. The basis for assessment of land values is generally not documented.

In a majority of cases, income and expense data are not presently provided to the assessor. When it is available, an income capitalization approach is used. These data are not included in the file except that a mention is made that the income approach was also used. The individual assessor retains all the data -- nowhere does the record show what net income was calculated or what capitalization rate was used. The income approach can now be used for subsequent years by making adjustments to the rent expenses and capitalization rate (if interest rates go up).

In the intervening two years, commercial and industrial property sales are analyzed to determine a rate of increase for the properties not being appraised those years. The increment obtained is used to project increased value and thus increased assessment for the two interim years in the form of a percentage increment.

Ideally, all the methods of valuation should be used for commercial and industrial property. We recommend that the data used for such appraisals be more fully documented.

C. Apartments

Apartment house owners are currently sent forms "requiring" rental and expense data, but the penalty for not complying or replying incorrectly is not known and has not been applied to anyone's recollection at the assessment office. There is about a 30% voluntary compliance on the return of the apartment forms and the data received is used to develop average rents for various sized units (e.g., two bedroom, high-rise) in each election district. These hypothetical rents are offset by the assessor using a figure for expenses which is a percentage of the rent used universally on all apartment buildings in the county. (Expenses before depreciation and mortgage servicing equals 55% of rents). While this gross income multiplier method is used by appraisers occasionally, it is fraught with errors particularly where poorer neighborhoods abut richer ones in one election district. Instead, economic rents and expenses incurred by a specific property should be used to calculate its value in the same manner as a potential investor would calculate value before he attempted to purchase the building. This requires that all apartment house owners respond to the request for rental and expense data. Legislation enacted in 1978 (SB 660) requires income and expense statements from owners of all real property which produces income. This should improve the use of the income method for assessing apartments.

D. Condominiums

Two areas which are especially vexing in the accuracy of assessments are condominiums and homeowners associations with common property. The method of assessing condos was changed to one more closely approximating individual parcels on 7/1/77. Homeowners associations are not directly addressed in law.

In the case of condominiums, common property is, under the statute, indivisible from the individual parcel held by each condo unit owner. Nonetheless, members of this committee have been advised in certain cases that separate accounts had been set up for certain condo property.

In the case of homeowners associations, common property is held separately by corporations with automatic membership, with each person in a particular development automatically receiving stock or shares in the homeowners association corporation. Common property, in either case, can be such minor amenities as streets or small parks, or may include major recreation packages such as swimming pools, saunas, clubhouses, golf courses and the like.

The situation can be complicated further when a condo or a group of condos (such as a development in several phases) is composed of members each of whom owns automatically, through convenient, a separate share in a parallel homeowners association corporation or a community association corporation which has title to some or all of the amenities. In this case, a separate account is set up by the assessor.

The difficulty arises in trying to set up fair assessments while avoiding double taxation. Because of the nature of condos, homeowners

associations, planned retirement communities, and similar such communities, the value of the amenities -- which are automatically available to the purchaser of a unit -- is presumably reflected in the purchase price of that unit. If assessments of the units are based on sale price without adjustment for the value of common property, then to tax the amenities separately is double taxation for the homeowners in such communities. Under the current system, there is a necessity to assign values to these amenities packages, particularly if they are set up under separate accounts, because of their separate corporate status. Some county offices have taken the position that in order to avoid double taxation, only nominal values will be assigned to these amenities packages. In some cases, a \$20.00 assessment has been set up for amenity packages. In other cases, there has been an effort to assess these packages at their actual value. In one case, a clubhouse owned by a community association whose condo unit-owner shareholders are all automatic members of the condos which make up the community association, has been assessed at several million dollars. Depending on how the living units are assessed, this could lead to double taxation.

We recommend that the Supervisor of Assessments investigate the unique assessment and taxation problems which are created by the assessment of common properties of condominiums, automatic membership homeowners associations, planned unit developments, common interest communities and similar community associations.

E. Farmland

Farmland is divided into five categories of productivity value, based on soil survey maps, with a separate category for woodland. Average assessed valuation is \$100 per acre (\$200 imputed market value) with a top valuation of \$300 for prime land. The imputed value is based on corn yield, since it is widely grown in every county in the state. The land value is derived from capitalization of income, allowing a 5% residual return to the land. Farm buildings, including the farmhouse and about an acre of surrounding land, are assessed separately, although special legislation for some counties exempts such buildings as silos as being a necessary part of farm operation.

Farm use values were originally determined ca. 1960 using total value of all products over land acreage to obtain an average value per acre. Potential corn production has been used to compare relative values of different soil types since then. While assessments were increased in 1973 and 1974, there has been no study of farm productivity since the initial one nearly 20 years ago. A full study of farm productivity and profits per acre should be undertaken by the state, and new data developed which, among other uses, could be applied to farmland assessments. The policy of giving preferential treatment to farmland is discussed in Chapter VII.

F. Use of Information Technology

The County Office presently receives limited data processing support, on contract, from the data processing center run by the

County government. Support includes the printing of assessment notices, and providing immediate access (through one terminal in the Assessor's Office) to that information which is contained on the assessment notice, plus recent property sales. The system provides no assistance in any of the computational tasks required during the basic assessment process which occurs following a physical review.

However, the computer does process some of the assessments in intervening years, when no physical review is conducted, and when the new assessment is based entirely on the previous assessment plus an inflation factor. The computer is also used to print a quarterly report of property sales data which includes assessment/sales ratios for individual accounts and at subdivision levels. The system has not been revised since it was designed in 1971, except for changes required to implement new state property tax legislation.

Despite the computer support now received, the Assessor's Office must maintain, update, review and have immediate access to the large volumes of information recorded on the assessment worksheets. It must calculate assessment/sales ratios for various subdivisions and improvement types. In addition, it should (but does not now) provide physical protection of its records by means of backup files, and compute broad statistical measures of performance. A modern data processing capability could improve the efficiency of current information storage and retrieval functions, and provide the additional essential capabilities for maintaining backup records and providing statistical evaluations.

Other jurisdictions have moved far beyond the level of data processing support now utilized by the Montgomery County Office. As discussed previously, Fairfax County, Virginia, uses a computer-based system as an integral part of the assessment system. There, the property characteristics are stored in the computer files, and the computer generates estimates of property value by three different recognized assessment methods. The assessor reviews these estimates and uses his judgment to reconcile them or to pick the best method for the property involved. Such a system should go far to clarify and limit the extent to which judgment is applied in the assessment process in Montgomery County.<sup>4</sup>

We recommend that Montgomery County be provided with a more effective, computer-based system that would provide alternative valuations for each property -- including the cost of replacement, sales and trend analysis -- to aid the assessor in making more accurate and uniform assessments, and to facilitate understanding and review by the taxpayer.

We have noted previously<sup>5</sup> that the time lag between the base period used for the sales analyses and the date of finality can cause dispersions in the assessment/sales ratios of properties due to differences in the rate of inflation for different types of property.

<sup>4</sup>The Fairfax system required 18 man-years of development effort over 30 calendar months, and was funded in 1974 by the Fairfax Board of Supervisors, which appropriated \$411,387 for the project. "An Overview of the Real Estate Computer Assisted Appraisal System" Review Branch, Office of Research and Statistics, Fairfax County, VA, Dec., 1977.

<sup>5</sup>Page IV-6.

A computer based assessment system would allow a final adjustment to all assessment based on the most recently available sales data, allowing assessments to reflect much more closely the property values on the date of finality.

Data processing support is tightly controlled by the state. The County Office cannot improve data processing support independently under current state controls. State priorities are presently directed toward providing a minimum level of data processing support to counties which have none. As presently planned, there will be no significant improvement in data processing support for Montgomery County for the next five years.

We consider this situation unacceptable. We would prefer that the State Director of Assessment and Taxation plan, implement and fund such a system in the near future. However, if the State cannot or will not do this, we believe the County should be enabled to develop such a system on a cooperative basis with the Office of Assessment and Taxation, using supplemental funds provided by the County.

The County Office has previously requested that the state allocate funds for a microfilm system to provide backup for the Montgomery County records in case of loss due to fire. We agree that such protection is urgently needed. However, if the cost of such a system is significant, we would prefer to see the funds go toward the advanced data processing system, which would provide backup records as one among many benefits.

TAB IV-A

STATE DEPARTMENT OF ASSESSMENTS AND TAXATION

SALES ANALYSIS REPORT

DISTRICT 7-B

SUBDIVISION Kenwood

LEVY YEAR 1977

TOTAL ACCOUNTS 298

LEVY YEAR OF LAST REASSESSMENT

1977

DESCRIPTION				BEFORE		AFTER		REMARKS
LOT	BLK	DATE	SALE PRICE	ASSESSMENT	RATIO	ASSESSMENT	RATIO	
<i>SUMMARY SHEET</i>								
		1975	6 SALES	298.3 ÷ 6	49.7	298.4 ÷ 6	49.7	
		1976	11 SALES	518.2 ÷ 11	47.1	524.7 ÷ 11	47.7	
		Total	17 SALES	816.5 ÷ 17	48.0	823.1 ÷ 17	48.4	
<i>LAND VALUATION</i>								
<i>Zoning - R-90 (minimum lot size 9000 sq. ft.)</i>								
<i>Resulting LAND RATES</i>								
<i>4000 sq. ft. @ \$4.90</i>								
<i>9000 sq. ft. @ \$2.45</i>								
<i>Residue sq. ft. @ \$1.22</i>								

BEFORE REASSESSMENT: 816.5 ÷ 17

AVERAGE RATIO 48.0

AFTER REASSESSMENT: 823.1 ÷ 17

AVERAGE RATIO 48.4

BLF:WS

ASSESSOR

Michael P. Laska

DATE

9-7-77

STATE DEPARTMENT OF ASSESSMENTS AND TAXATION

SALES ANALYSIS REPORT

DISTRICT 7-B

SUBDIVISION Kenwood

LEVY YEAR 1978

TOTAL ACCOUNTS 298

LEVY YEAR OF LAST REASSESSMENT

1977

DESCRIPTION			BEFORE		AFTER		REMARKS
BLK	DATE	SALE PRICE	ASSESSMENT	RATIO	ASSESSMENT	RATIO	
			1976	SALES			
4	6.14.76	135000	64460	47.7	65410	48.4	EXP. 1 STY (Contemp.) 1923
2	11.3.76	235000	110030	46.8	108160	46.0	EXP. 2 1/2 STY 1930
9	9.16.76	205000	82910	40.4	89330	43.5	EXP. 2 1/2 STY 1936
4	1.27.76	173500	91780	52.8	96420	55.5	Rehabilitation after sale
1	10.21.76	140000	76290	54.4	75010	53.5	Forced sale
7	12.30.76	172000	73460	42.7	80480	46.7	EXP. 2 STY 1942
1	12.13.76	147500	59790	40.5	70650	47.8	EXP. 2 STY 1942
4	7.17.76	215000	99990	46.5	94830	44.1	EXP. 2 STY 1986
A	6.16.76	158500	75080	47.3	75260	47.4	EXP. 2 STY 1962
4	7.8.76	182500	90840	49.7	85330	46.7	EXP. 2 STY 1956
1	1.8.76	175000	96890	55.3	90300	51.6	EXP. 2 STY 1957
4	10.20.76	355000	125840	35.4	136800	38.5	Capricious Purchase.
2	12.1.76	335000	115540	32.5	135800	39.7	Adj for Improvements Capricious Purchase
1	1.5.76	215000	114650	53.3	111750	51.4	EXP. 2 1/2 1957
1	7.23.76	155000	74400	48.0	78490	50.6	EXP. (Contemp.) 1956
				518.2		524.7	
		11 SALES	518.2 ÷ 11	47.1	524.7 ÷ 11	47.7	

BEFORE REASSESSMENT: AVERAGE RATIO

AFTER REASSESSMENT: AVERAGE RATIO

ASSESSOR Michael S. Laska DATE 9.7.77

STATE DEPARTMENT OF ASSESSMENTS AND TAXATION

SALES ANALYSIS REPORT

DISTRICT 7B

SUBDIVISION Kenwood

LEVY YEAR 1978

TOTAL ACCOUNTS 298

LEVY YEAR OF LAST REASSESSMENT 1977

DESCRIPTION				BEFORE		AFTER		REMARKS
LOT	BLK	DATE	SALE PRICE	ASSESSMENT	RATIO	ASSESSMENT	RATIO	
				<i>1975 SALES</i>				
<i>c3<sup>2</sup></i>	<i>4</i>	<i>9.3.75</i>	<i>170000</i>	<i>76730</i>	<i>45.1</i>	<i>83280</i>	<i>48.4</i>	<i>Exp. 2 STY 1978</i>
<i>c5<sup>2/2</sup></i>	<i>3</i>	<i>11.13.75</i>	<del><i>250000</i></del>	<del><i>47490</i></del>	<del><i>38.9</i></del>	<del><i>105820</i></del>	<del><i>42.0</i></del>	<i>Capricious Purchase</i>
<i>c1<sup>14</sup></i>	<i>4</i>	<i>8.28.75</i>	<i>165000</i>	<i>79430</i>	<i>48.1</i>	<i>81500</i>	<i>49.3</i>	<i>Exp. 2 STY</i>
<i>c3<sup>HP3</sup></i>	<i>4</i>	<i>7.11.75</i>	<i>200000</i>	<i>102490</i>	<i>51.2</i>	<i>100710</i>	<i>50.3</i>	<i>Exp. 2 STY w/B+A 1978</i>
<i>c6<sup>2</sup></i>	<i>1</i>	<i>8.11.75</i>	<i>195000</i>	<i>99570</i>	<i>51.0</i>	<i>105740</i>	<i>54.2</i>	<i>Exp. 2 STY</i>
<i>c1<sup>30x</sup></i>	<i>9</i>	<i>8.27.75</i>	<i>162000</i>	<i>82580</i>	<i>50.9</i>	<i>84440</i>	<i>52.4</i>	<i>Adj. for New Pool</i>
<i>c1<sup>24</sup></i>	<i>8</i>	<i>9.29.75</i>	<i>240000</i>	<i>125020</i>	<i>52.0</i>	<i>114930</i>	<i>47.8</i>	<i>Exp. 2 STY w/B+A 1978</i>
<i>c8<sup>2</sup></i>	<i>A</i>	<i>9.11.75</i>	<del><i>148000</i></del>	<del><i>84300</i></del>	<del><i>57.0</i></del>	<del><i>100400</i></del>	<del><i>67.0</i></del>	<i>Forced Sale</i>
<i>c2<sup>13</sup></i>	<i>2</i>	<i>11.7.75</i>	<del><i>173000</i></del>	<del><i>43800</i></del>	<del><i>54.2</i></del>	<del><i>72600</i></del>	<del><i>59.5</i></del>	<i>Unusual Contract concern</i>
<i>c4<sup>15-49</sup></i>	<i>3</i>	<i>8.8.75</i>	<del><i>175000</i></del>	<del><i>100500</i></del>	<del><i>57.7</i></del>	<del><i>103720</i></del>	<del><i>59.3</i></del>	<i>Sale Price below comparable Market Value</i>
					<i>298.3</i>		<i>298.4</i>	
<i>6 sales</i>				<i>298.3 ÷ 6</i>	<i>49.7</i>	<i>298.4 ÷ 6</i>	<i>49.7</i>	

BEFORE REASSESSMENT:

AVERAGE RATIO

AFTER REASSESSMENT:

AVERAGE RATIO

BLF:WS

ASSESSOR

*Michael P. Laska*

DATE

*9.7.77*

## CHAPTER V

### ORGANIZATION AND MANAGEMENT

#### A. The Role of the State

Legislation enacted in 1975 began a two year process of transferring control of assessments from Maryland counties to the state. By July, 1975, all personnel in the county assessment offices became state employees. The only remaining local control is the requirement that the supervisor of assessments for each county must be selected from a list supplied by the local government.

Under the current structure of the State Department of Assessments and taxation, the Montgomery County Supervisor (as is true of his counterparts in other jurisdictions) retains a substantial degree of autonomy from the State Director. This autonomy results in part from the ambiguity of State law, the tradition of County autonomy that dates from the time when counties operated their own assessment systems independent of the State, and the special case of Montgomery County which is perceived as one of the better assessment offices in the State. In his effort to improve assessment administration throughout the State and to achieve greater uniformity of assessments among jurisdictions, the State Director of Assessments and Taxation has understandably directed the greater part of his attention to those assessment divisions considered to be substandard. There is a danger, however, that property assessment in Montgomery County may suffer as a consequence in two respects.

First, while the State's assessment office in Montgomery County may be above average for the State and even for the nation as a whole -- and while by some indications its assessment accuracy has improved over time -- the office has not achieved the highest standards of assessment practice that have been demonstrated to be feasible in jurisdictions around the country. Nor has the Montgomery County office achieved the rate of improvement we believe is desirable. One reason for the failure to keep pace with modern assessment practices is lack of support from the State Director for performance standards, and supporting resources, above the mediocre statewide level. For example, the State Department of Assessments and Taxation is in the process of implementing a uniform assessment system statewide that falls far short of the latest available assessment techniques and technology, but is geared to raise the level of the low-performance local assessment offices. It may be that the most modern approach would not be the most cost-effective approach for some local offices given their size and administrative capacity. We do not believe, however, that the potential of the State office in Montgomery County should be sacrificed for the purpose of achieving a uniform but mediocre standard statewide. We would be concerned further that locking Montgomery County into the statewide uniform system may further retard its progress as assessment practices advance nationwide even beyond the standard they have reached today. We urge the State Director to take steps to assure that each division of his

Department, including the Montgomery County office, achieve its highest potential of performance, and that statewide standards for assessment procedure be tailored so as not to prevent or discourage the Montgomery County office, or other local offices, from employing the most advanced assessment techniques and technology.

A second problem with the State structure is that in an effort to achieve uniformity of assessments throughout the State, the State Director of Assessments and Taxation as late as 1976 issued instructions that jurisdictions with (assessment/sales) ratios above or below the average for the State should take corrective action to bring their ratios more in line with the State average. We fully support the emphasis on achieving greater uniformity of assessments statewide. We are concerned, however, that achieving uniformity by moving toward average performance would mean lowering the standards of the better performing divisions, thereby causing additional distortions and confusion, and a relaxation of pressure on the Montgomery County office to move toward the highest performance of which it is capable. We recommend that the State continue its effort to achieve uniformity of assessment among jurisdictions throughout the State; however, we believe it would be preferable to urge all divisions to move toward the highest standards of performance rather than toward an average or mediocre standard. We further recommend that for purposes of levying the State property tax and determining distribution of State grant funds, adjustments in the property base be made to fully account for the lack of uniformity of assessments of the State's subdivisions.

B. Relationships to County Government

The property tax is the principal source of income for the County. The state derives little revenue from the property tax. Citizens who are aware of this naturally look to the county when they are unhappy about their property tax bill. While the county can control the overall level of taxation through its control of the tax rate, it can do nothing to remedy inequities in the apportionment of the property tax burden. As a result, the taxpayer is frequently in considerable confusion as to who is responsible for his property tax bill. Complaints about a tax bill are frequently met with a finger-pointing exercise between the county government and the State Department of Assessment and Taxation. This situation tends to reduce the accountability of both levels of government to the people they serve.

The state has no natural incentive to improve the assessment system. The state derives little revenue from the property tax so that the incentive for effective and efficient administration is not as powerful as with the income and sales tax, where good administration means higher revenues. The principal state concern has been to minimize the rising tide of citizen complaints about the property tax burden and perceived inequities. Unfortunately, the response by state elected officials to date has not been to improve administration. Rather, stop-gap measures have been taken to make the public think something is being done. In fact, some measures have actually complicated assessment administration and may have simultaneously exacerbated

inequities. For example, the 15 percent lid on property tax increases passed in the 1977 session of the legislature, and extended for two more years in 1978, directly contradicts the basic state statute requiring "full cash value" assessments. While it provides some relief for taxpayers whose properties are rising rapidly in value, it indirectly places a relatively greater share on those whose properties continue to be taxed at market value. It also creates additional administrative burdens since the assessors must identify properties subject to the 15 percent limit, and the county government's Management Information Service must assist the state assessor with data management and analysis.

The Montgomery County government has little if any power over the assessment system on which it depends so heavily for revenues, and about which the county citizens it represents consistently complain. The Task Force considered the possibility of having the county government assume complete responsibility for property assessment in order to bring management responsibility closer to those who are affected by it. However, a majority of the Task Force rejected this approach, feeling that further efforts should be made to make the State-run system responsive to County needs. To encourage such responsiveness, the Task Force recommends that steps also be taken to give the County government a more direct influence in the assessment system to assure continual improvement in equity. To this end we suggest the following measures be considered:

- That the County government develop and maintain an effective capability to analyze and periodically report on assessment/sales ratios, and other data that reflect the accuracy and equity of the assessment system.
- That the County government submit an annual evaluation of the assessment process to the Montgomery Supervisor and the State Director, and that each of these officials be required by law to comment on the County report and to specifically indicate what action will be taken on proposed recommendations.
- That the County government consider, and appropriate State authorization be given, to permit the County to work with the State's Montgomery County assessment office to achieve the highest possible level of assessment performance. One approach, as noted earlier, would be for the County government to provide assistance in developing the capacity for more accurate assessments.

We recognize that no one of these measures will give the County government actual authority to make changes in the assessment system, but we believe they would strengthen the ability of the County to press for needed improvements and to monitor the State's actions toward greater accuracy and equity of assessments.

#### C. Management Improvement

The Office of the Supervisor of Assessments for Montgomery County has not formulated specific goals and objectives for the improvement of operations or performance. The office views itself as an operating organization with a job to do as specified by law, and apparently has seen no need to set targets for itself apart from getting the job done.

We feel that any dynamic organization, however well managed, requires a continuing process of self-appraisal and updating of methods and procedures. The property taxation system in Montgomery County clearly

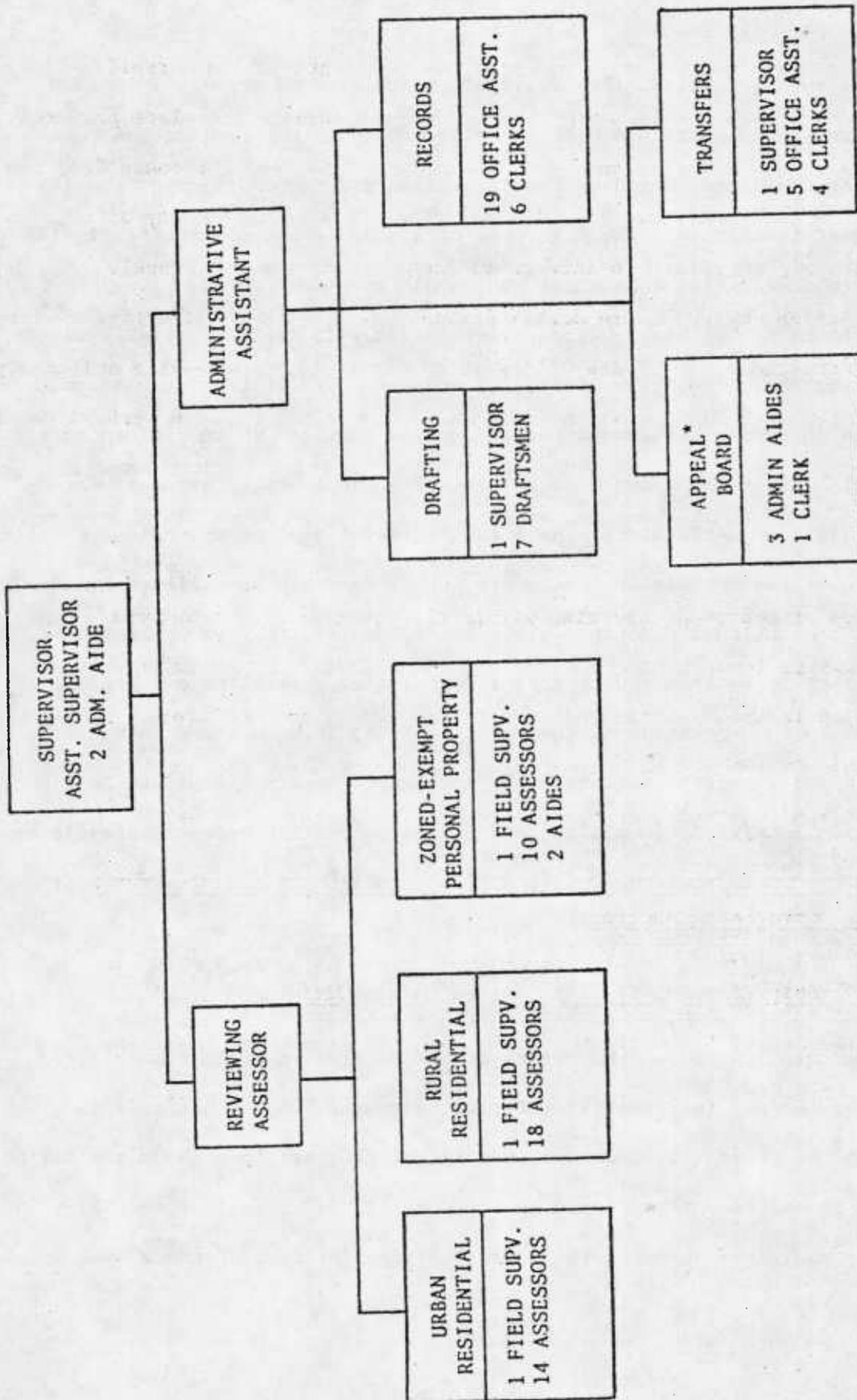
requires such a process. Property values are growing more rapidly than elsewhere in the state. A highly active and educated populace has come to expect -- indeed demand -- sophistication and responsiveness from its governmental entities. The high cost of living in the county affects the ability of the office to attract and retain competent personnel.

Actions by the State Office are not likely to deal effectively with this situation. The State Office is concerned with state-wide uniformity and with upgrading assessment performance in counties which perform poorly. The State Office has shown little interest in improving Montgomery County's relatively good performance. As a result, resolution of the unique problems relating to assessments in Montgomery County can only be achieved by a process of continual updating within the county office. We would therefore expect to see the county office formulating objectives and goals relating to the operation of the county office, in such areas as measurement and improvement of accuracy, better record keeping, improved handling of citizen inquiries, complaints and protests, and increases in efficiency.

We recommend that the County Office establish an annual assessment system improvement process.

D. Organization and Staffing of the County Office

The organization of the Office of the Supervisor of Assessments for Montgomery County (hereinafter referred to as the "County Office") is shown in the Chart V-1. However, not all of the positions shown are filled. Only 33 assessors were employed on September 1, 1977, against the 42 assessor positions shown on the chart. Hiring for four of these



\*Administrative Support Only

CHART V-1

ORGANIZATION OF THE MONTGOMERY COUNTY OFFICE,  
STATE DEPARTMENT OF ASSESSMENTS AND TAXATION  
(at the time of the study)

vacancies was approved by the State Director; authority to hire for the remaining vacancies had not been granted as of September 1, 1977. Vacancies exist also in the clerical and drafting areas. These vacancies must be evaluated in the light of the increasing workload in the office, and the difficulty of obtaining qualified personnel for the County Office.

The assessment workload is increasing because of changes in the law and in the demands of the property owners and local government. Beginning with the 1976 levy year, the law granted property owners the right to obtain copies of their own worksheets. Beginning July 1, 1977, residential property owners who have appealed will be able to obtain, for a fee, copies of worksheets of any properties the citizen chooses to regard as "comparables." These changes create a growing workload for the Assessor's Office, not only in furnishing these worksheets but in explaining each one to the recipient. The rapid growth of property taxes in the county has escalated citizen interest in the assessment system which is (wrongly) viewed by many citizens as the cause of tax increases. As a result of these developments, a declining assessment work force is spending more and more time on public relations and protests, at the expense of time devoted to the basic task of developing sound and equitable assessments in the first place.

It will not be easy for the County Office to increase its staff with competent personnel, even if authorized to do so by the State Director. The salaries paid by the state are about 25% below salaries paid by Montgomery County government. For example, the starting

salary for a clerk is \$5,994 per year under the state system, whereas Montgomery County pays \$8,028 for a comparable position. An assessor under the state system starts at \$9,985 going to \$14,140 after two years (considering both promotion and longevity increases). Assessors working under the county pay system (as explained below) make over \$20,000 per year.

When the state took over the county assessment offices, county employees were given the option of joining the state pay and benefits system, or of staying under the county system. Most personnel in Montgomery County elected to stay with the county systems, where pay and benefits were significantly higher. However, every new employee must be hired under the state system. Thus, while the county now enjoys the services of a competent and adequately paid staff, it will be difficult or impossible to retain that quality. As personnel leave or are promoted, replacements will be paid on a significantly lower scale. An assessor who was making \$20,000 will have to be replaced with someone who will earn only \$14,000. The results will be obvious.

We recommend that the County Delegation introduce legislation supporting pay differentials related to the cost of living in different counties, so that assessors and other personnel in like positions can afford to live in the counties where they are assigned to work.

The state pay system also lacks adequate means to provide financial incentives for professional development and on-the-job performance. Under the county system, an assessor who completes the requirements

and passes the examination for a CAE certificate could be awarded a grade promotion plus an additional \$500 per year salary increase. Under the state system, only the \$500 per year salary increase is permitted. There is no financial reward which can be given for on-the-job performance.

One method of rewarding superior performance would be to provide pay differentials for certain specialized assessors. Commercial, Personal Property and Farm assessments pose special problems requiring additional knowledge and skill. Yet, the assessors who perform these functions receive no financial compensation for their more demanding work.

We recommend that the State Director of Personnel establish a pay increase differential for assessors handling such specialized functions as commercial, personal property and farm assessments. The complexity and importance of commercial assessment should receive particular recognition.

There is also a lack of intermediate supervisory positions in the pay system. There is no recognized supervisory position between assessor (a non-supervisory position) and Field Supervisor (a position which supervises 12 to 18 people in the county). An intermediate management position such as an Assessor Team Leader would provide an ability to recognize superior performance and at the same time provide a better capability for development and evaluation of candidates for Field Supervisor. The State Director of Personnel should be requested to establish an intermediate managerial position between the present Assessor III and Field Supervisor positions.

#### E. Operating Procedures

Most of the procedures used within the County Office are transmitted by word of mouth. There is no manual or procedures guide which directs the functioning of the office. Uniformity of practices is sought through verbal direction at monthly or bi-monthly staff meetings, and through review of completed worksheets by the Field Supervisors.

There is a system for assigning work to individual assessors and for monitoring the progress of the work. A work schedule for each assessor is developed showing the number of accounts assigned, and the time allotted for field work, office work, hearings and court appearances, school, meetings, leave and holidays. This work is to be completed during the first eight months of the year. A separate schedule is completed for the last four months of the year, the period immediately after assessment notices are mailed out. These work schedule forms have not yet been modified to include the assignment of "computer assessments" (those assessments which are performed without physical review). Rather, a list of "computer assessment" subdivisions is attached, and the assessor's physical review workload is reduced accordingly. (Assessors formerly handled 3200-3500 physical review accounts. With the addition of an average of 6000 computer assessments to the assessor's workload, his physical review quota is reduced to about 2500 accounts. From this we can estimate that a "computer assessment" takes 12% to 16% of the time required by a physical review, and that the annual assessment requirement has increased assessment workload by 30% to 40%.)

Each assessor provides a monthly report of his progress and the supervisor replies with an estimate of whether the assessor is ahead or behind schedule. A monthly report of progress is also provided to the state. This system is designed to assure that the assessments are completed on schedule as required by law.

F. Evaluation of Performance

The present procedure for overall management evaluation of the accuracy of assessments is inadequate. The only measure of assessment accuracy which is used is the average assessment/sale ratio for the entire subdivision, based on the properties sold during the base period. The use of this measure as a check on performance has two limitations. First, it is not an adequate measure of the accuracy of individual assessments within the subdivision. The coefficient of dispersion of the individual assessment/sales ratios should also be computed. This could quickly and easily be done with modern hand calculators having statistical functions.

Second, the use of base period sales as a means of checking assessor performance is not really a check at all, since the assessor knows these sales prices when he develops the new assessments. Though we have no evidence that it is done, it is certainly possible for the assessor to make the a/s ratios on these properties as close to the target ratio as desired. A system for evaluating accuracy should not offer the possibility for such manipulation.

Further, we believe, the evaluation should use as a standard the assessment/sales ratio as of the date of finality. As discussed in

the previous chapter, the date of finality is presently 12 months after the end of the base period used for setting assessment levels in each subdivision. While we recognize the practical limitations which, at present, cause this situation, we believe that the assessor should determine what degree of uniformity is achieved as of the date of finality. Accordingly, we feel that the County Assessor's Office should perform statistical evaluations of assessment/sale ratios using sales close to the date of finality.

We recommend that the County Office undertake systematic evaluation of the accuracy of assessments as of the date of finality, using a widely accepted method of statistical evaluation, and issue annually a report on patterns of assessment changes and assessment accuracy and uniformity among classes of property, districts and subdivisions.

We recognize that the time lag between the base period and the date of finality will cause some degree of dispersion in assessment/sale ratios as of the date of finality. The practical limitations which cause this lag can be greatly alleviated if more effective computer support is provided for the assessment process, as discussed in Chapter IV.

Also, the State Department of Assessment and Taxation should place greater emphasis on developing the capability and providing the incentive for more effective evaluation of County assessments.

## CHAPTER VI

### PROPERTY ASSESSMENT APPEALS

The real property assessment system and the system for appeal or protest of assessment are separate organizationally and functionally. However, it is during the appeal procedure that the property owner most closely contacts the assessment process, for he and the assessor then come together -- the one to protest the work of the other.

Appeal procedures can be described both as they should function and as they do function. This report is based on five definitions, which are in part descriptive of the appeal procedure as it does function and also are criteria by which to evaluate the assessment appeal procedure:

1. Due Process: appeal procedures must satisfy the constitutional requirement for due process.

2. Public acceptance: appeal procedures, the only face-to-face interaction of property owner and assessment process, should create and maintain public understanding of the mass-assessment process.<sup>1</sup>

3. Assessment testing: as the only ongoing procedure within the mass-assessment process which tests an individual assessment for accuracy and equity, the appeal process should, over time, tend to prevent systematic bias in assessments and a consequent shift in tax burden.

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<sup>1</sup>Real property assessment is not appraisal. Appraisal establishes the value of a property by detailed consideration of all factors which might affect its sale price. Mass-assessment establishes the value of a property, so as to distribute the common tax burden in proportion to property value, by general methods which can be applied to all properties. The measure of a mass-assessment system is whether similar properties are similarly assessed, not its accuracy in predicting the sale price of any particular property.

4. Specific assessments: appeals introduce information about unique property situations and changes in property situations into the mass-assessment methodology, thereby creating a specific property assessment capability.

5. Error correction: appeals provide an error correction capability which mass-assessment methodology does not naturally have.

In addition to discussing the appeal process, this report also discusses the office and role of the Public Advocate for Assessments and Taxation.

Because of limitations of time, the work of the committee producing this report concentrated primarily on appeals of residential property assessment. Residential assessments are the vast majority of all property assessments and, of course, directly affect the largest portion of Montgomery County residents. Commercial, apartment, farm and condominium property assessments are appealed in the same manner as residential properties.

The characteristic of the appeal process most important to understand is that it is an adversary procedure. The assessment is produced by a career professional, using generally accepted methods developed to fulfill the requirements of law and to comply with the constraints set by law. That same assessment is protested by the owner of the property, often on the basis of his intimate knowledge of its details and defects, its neighborhood, and the sale prices of properties nearby. In conflict in this context, the assessor and the property owner have been described as natural adversaries.

The property owner and the assessor face each other as adversaries in a sequence of increasingly formal procedures in which the resources of the state become more available to the assessor's defense while the cost of appeal mounts for the property owner. The cost of appeal tends to burden the homeowner more than owners of other types of property.

To the assessor, each step of the sequence is typically a distraction from his real work, and often includes sharp criticism of the validity or quality of that work as well. To the property owner, an appeal not only directly affects his taxes but may represent to him a test of fairness of treatment, tax equity, and similar issues of principle.

A second major characteristic of the appeal procedure is the presumption found throughout the process that the assessment is correct. Thus, the burden of proof is the property owner's.

This presumption facilitates administration of the property tax assessment system in several ways.<sup>2</sup> It tends to suppress frivolous or casual appeals. It expresses the confidence of the taxing authority, namely the government, in this method of distributing the common tax burden. Most importantly, however, the presumption that the assessment is correct prevents the appeals process from becoming a "re-assessment" process.

If the contrary presumption were held, that the property owner is correct, then the assessment of any property would not be based on its value but would reflect the energy and cleverness of its owner in making appeals.

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<sup>2</sup>The presumption of validity of an administrative determination is, of course, a basic legal principal in the United States.

The appeal would thus become only another step in the assessment process. The assessment could not be presumed consistent with assessments on similar properties and such inconsistency would mean the end of an equitable assessment system and, therefore, the end of fair distribution of the common tax burden.

The third major characteristic appropriate to mention as introduction to the appeal process is that it deals with overassessment not underassessment. Owners do not appeal their underassessment and only a very small number of underassessment appeals are entered by the Supervisor of Assessments or any third party. The appeal process does not, therefore, function to move assessments in general toward equity, however much of the fairness of an individual owner's assessment may be improved by his appeal.

A. Due Process and the Appeal Process

The steps through which appeal of a property assessment can be carried in Maryland are a process tied together by procedures in law. These steps are structured to ensure that the constitutional requirement for due process is met in property assessment appeals.

An appeal can be made by parties other than the property owner and the assessor; taxpayers, cities, counties, or State of Maryland can appeal any assessment or any decision in the appeal process. This reflects the principle that assessments be equitable among all property owners.

Figure VI-1 describes the steps of the appeal process, their relation to each other, and the appeal paths followed by different types of property.

THE APPEAL PROCESS

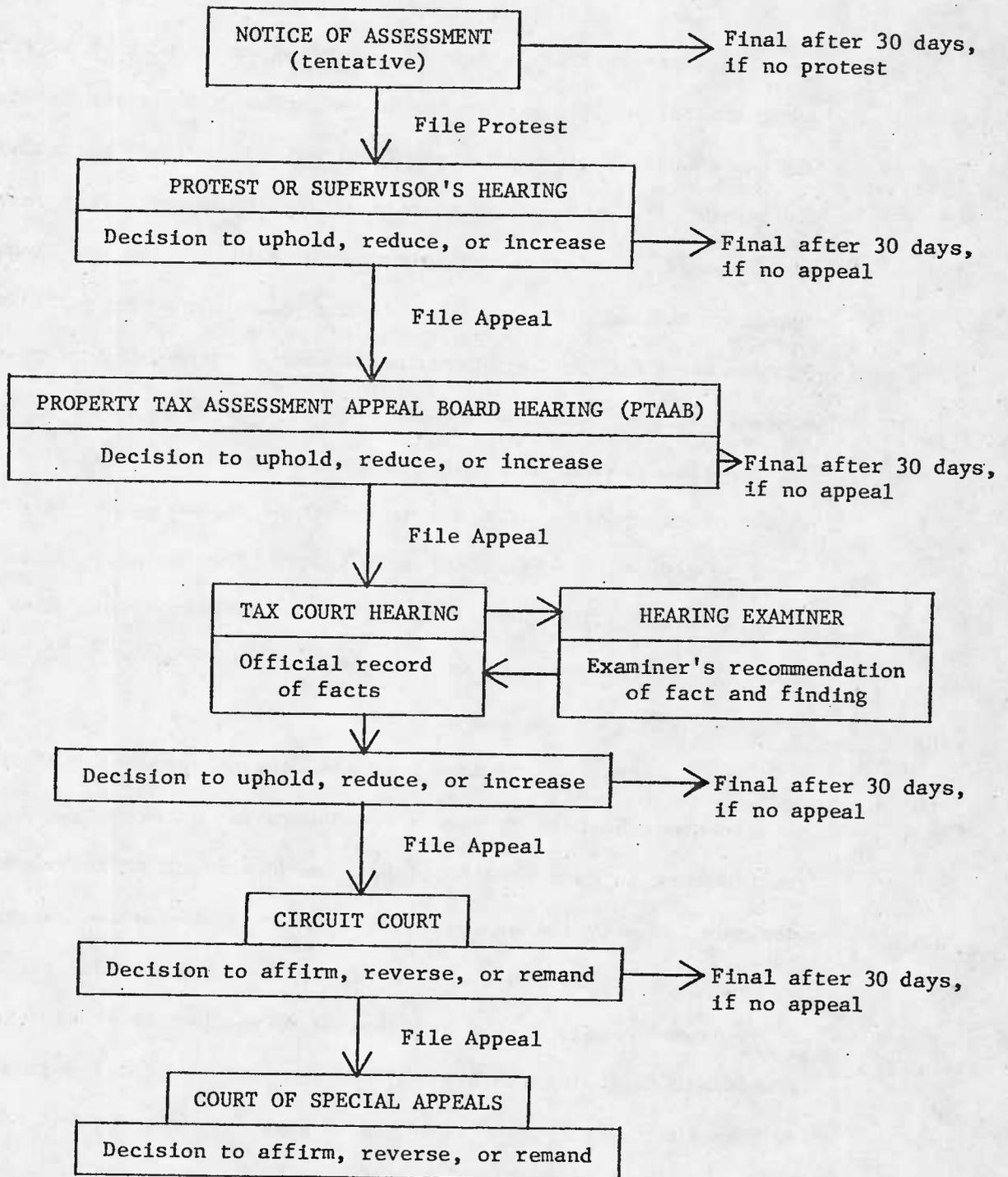


FIGURE VI-1

The Supervisor of Assessments is required to mail to each real property owner notice of (1) any increase in valuation of property for tax purposes, (2) any change in property classification, (3) any new valuation of property. He also is required to send notice (4) whenever any person applies for a change in existing valuation or reclassification and there is a change or refusal to change an existing valuation or classification, or (5) whenever a valuation or reclassification for a given year or part thereof has been appealed but not finally determined and the same valuation or classification is made for a subsequent year on property locally assessed. This tentative notice of assessment must be served on the taxpayer at least 30 days before the date of finality. They usually are mailed about 90 days before. The date of finality is 1 January of the levy year to which the assessment applies. (Article 81, Section 29.) Approximately 175,000 notices are mailed each year.

The taxpayer has 30 days from the date of the notice of his assessment to demand a hearing before the Supervisor of Assessments. This protest hearing is conducted by either the Supervisor of Assessments or his designee, usually the assessor who actually made the assessment.<sup>3</sup> The hearing is informal and the taxpayer may be represented. The Supervisor of Assessments will make a decision as to whether to change the tentative assessment following the hearing and send out the final notice of assessment to the taxpayer, who then has 30 days from the date of that final

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<sup>3</sup> If the property owner and assessor can resolve any problems with the assessment there will be a change in assessment and a "revised notice of assessment" will be issued.

notice to appeal to the Property Tax Assessment Appeal Board (Article 81, Section 255). About 6,000 hearings occur annually. (An even larger number of hearings do not occur because problems are resolved informally between assessor and property owner.)

This first step -- the Supervisor's Hearing or Protest Hearing -- is not an appeal nor an adversary procedure in the same sense as later steps because the assessor and property owner do not face each other before a third party. The owner presents his case to his property assessor who decides whether there has been an error or incompleteness in assessment procedures and who typically takes pains to explain the assessment in detail to the property owner. Data from the survey of assessors conducted by the Task Force (Appendix B) show approximately one in ten such hearings result in an adjustment to the worksheet and a reduction in the assessment.

For the vast majority of property owners, however, this hearing does not result in an adjustment to their satisfaction. These owners must decide whether or not to carry their case to the Property Tax Assessment Appeal Board (PTAAB). Only about one in six decide to appeal further.

The Property Tax Assessment Appeal Board has jurisdiction over all appeals in the county concerning property tax assessments plus any other local tax matters which the county has assigned or may assign to it for hearing, including appeals concerning local tax credits, local taxes, and special taxing areas. (Article 81, Section 250). The PTAAB is the final assessing authority at the county level. Its decisions are based

on the case presented by the appellant and the defense of the assessor, in combination with relevant points of law. The Public Advocate for Assessments and Taxation frequently provides information during hearings before the PTAAB.

A property owner who appeals the decision of the supervisor is entitled to be represented by counsel or may represent himself at the hearing. He may call witnesses on his own behalf and may examine the assessor and any witnesses the assessor may bring. Although a written opinion is not required of the board in supporting its decision, the Montgomery County PTAAB has attempted to file opinions in order to explain to the taxpayer the basis of its decision. Legislation passed in 1978 (HB 630) now requires the PTAAB to state the basis for its decisions.

An unsuccessful appellant before the PTAAB may appeal that decision within 30 days to the Maryland Tax Court. (Article 81, Section 256.) The Maryland Tax Court is an administrative agency rather than a judicial court. (Article 81, Section 224.) It conducts its hearing in Baltimore, except that a hearing may be held locally by an examiner at the direction of the court. (Article 81, Section 229A.) The hearing before the Maryland Tax Court is de novo, that is, an appellant is required to present his complete case anew, including witnesses, and not rely on the contents of the record before the Property Tax Assessment Appeal Board.

The Tax Court follows a highly formal procedure compared to those in the earlier appeal stages. The assessor appears with the Attorney General as his counsel. (At hearings before the examiner, the assessor will usually appear alone.)

Should a taxpayer be unsatisfied with the decision of the Maryland Tax Court, he may appeal to the Circuit Court of the county where the property is located. (Article 81, Section 229.) The action in the Circuit Court is an administrative appeal, which means the hearing will be based on the record made before the Maryland Tax Court. Subsequent appeals are permitted to the Court of Special Appeals. (Article 81, Section 229.)

The result of the appeal process is to define a given property assessment for a given levy year. A decision for or against reduction has no legal effect on subsequent assessments. Thus, the property owner can appeal -- and the assessor can assess -- year after year as if there were no history of considered decisions in the case. In practice, however, a previous appeal decision is usually considered by the assessor in subsequent assessments of a property.

B. Public Acceptance

A rational evaluation of the goods and services provided by government is not possible unless taxpayers and elected officials can objectively evaluate the cost of their government. The tax system, including assessment in the case of property tax, should not itself, in its operations, become a barrier to this objectivity by creating negative experiences and subsequent taxpayer resistance.

The Task Force received testimony from a number of individuals critical of the assessment and appeals processes. Such testimony does not necessarily represent the general public opinion, of course, and in fact responses to the Task Force survey of PTAAB appellants (Appendix

C) showed opinions which were largely temperate and objective. Nonetheless, the critical comments which have been received do indicate that problems with public acceptance exist in some measure.

These critical comments were often a reaction to factors inherent in the assessment and appeal processes. Among these factors are the complexity of the assessor's methodology, the presumption in appeal in favor of upholding the assessment, and the adversary nature of appeals.

However, the Task Force found most problems of public acceptance were the result of public ignorance of the assessment and appeal processes.

Equally a cause of problems was total lack of information showing whether assessments in general are accurate and equitable throughout the county.

Many property owner's critical comments revealed factual errors and mistaken inferences, such as the ideas that the assessor controls the appeals system, that high taxes are valid grounds for appeal, or that the assessor "gets even" in subsequent assessments when he loses an appeal. Many owner's critical comments implied far-reaching distrust of the assessment system and assessor objectivity.

The Task Force recommends therefore that two major information documents be produced for public use:

- 1) A handbook written for the property owner on the subject "residential assessment -- how it is done and how to appeal." The contents of such a handbook are suggested in Appendix D.

2) A report released each September which (a) summarizes assessment and sales data by assessment district and subdivision, property type, and assessment level; and (b) which reports the adjustment factor computed from sales analyses.

These recommendations address two problems identified by all participants in the appeal process (appeal officers, assessors, the Public Advocate, and the property owner) as being basic.

C. Assessment Testing

The appeal process serves as a limited and external test of assessment methodology. For example, when appeals made by commercial or apartment property owners consistently win reductions because an income return on investment lower than that used by the assessor can be shown, this consistent reduction pattern is a signal that there is a methodological problem in assessments for that type of property.<sup>4</sup> This "signal" comes from outside the assessment office, as contrasted to any quality control or review findings the office may produce internally.

Similarly, when a residential owner wins a reduction based on "comparables" (sale price of properties similar to the one appealed), his appeal becomes a specific correction of the sales analysis adjustment factor which was used to assess that property. Further, if a number of similar appeals arise from a given subdivision, their combined effect would be to increase the overall equity of assessments in that subdivi-

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<sup>4</sup>A pattern may, also, indicate a fault in the appeal process, or some special advantage of the property owner or the assessor.

sion. Conversely, of course, the assessor's use of comparables to defend his assessments are, when successful, evidence to support the equity of his assessments.

Unfortunately, this apparent self-correction mechanism applies only to overassessments, since underassessments are rarely challenged using the appeal process.

Unfortunately too, the self-correction process is in current practice very uneven and very limited in its ability to change assessment practices. Neither the assessment nor appeal processes have developed systematic methods of information exchange -- feedback mechanisms -- internally or between assessments and appeals. This failure is analogous to a legal system which ignores precedent or a business which ignores the return rate of defective goods.

The Task Force recommends that the Supervisor of Assessments develop methods to: (1) capture information systematically from each stage of appeals as to type of property, assessment, reason for appeal, and reason for denial or assessment change; (2) to convert this information into procedural and methodological changes and systematically to relay this to assessors. At present the assessment office does evaluate information from appeals, but not in a systematic way and often without benefit of full information from the PTAAB, Tax Court, and higher appeal courts.

Shifts in the tax burden can result from assessment practices and also from appeal processes, among other causes. When the assessor's methodology creates a shift in tax burden, this could create an increase

in appeals from those newly burdened. However, since less than four percent of assessments are appealed a meaningful pattern of increased appeals is not likely to occur and automatically correct any shift in tax burden.

D. Specific Assessment

The assessor describes his method as "mass-assessment." By this he means that his estimate of property value is not based on a detailed consideration of all value-increasing and value-decreasing factors present in each property. Rather, each property is valued as a member of a group of similar properties. Any such mass-assessment methodology is naturally blind to unique property situations and insensitive to changes in property situations.

The appeal process serves to modify mass-assessments into more specific assessments. For example, when an owner successfully appeals because his foundation wall has split and admits ground water, he has changed that mass-assessment to recognize this unique circumstance of his house. Simple fairness requires that there be such appeal procedures whereby the mass-assessment can be adjusted to take account of specific devaluing property circumstances.

The Task Force believes that current practice within the appeal process does not adequately support this "specific circumstance adjustment" function, and that as a result the public is not adequately informed as to how to get a more "specific assessment." The Task Force recommends that more adequate support be provided at each stage of appeals by compiling

and publishing the reasons which have resulted in assessment reductions at that stage. The PTAAB and Tax Court should each maintain a list of such reduction reasons for public use.

The Task Force recognizes that such a "book of reduction reasons" might invite appeals and likely would increase the number of reductions. However, this result is exactly proper since such reductions would be the result of a more correct assessment. Further, the loss in revenues would likely be slight and would be repaid by the benefits to public confidence from such an open and outreaching document. Finally, simple fairness calls for such public availability of reduction reasons: since taxes collected on erroneous assessments are not always refundable, the taxpayer should be given all reasonable resources to ensure the correctness of his assessments.<sup>5</sup>

E. Error Correction

Mass-assessment methodology is inevitably subject to simple error, whether a computer error, input data error, or a human error. The appeal process is the only error correction mechanism in real property mass-assessments.

The Task Force believes that all such errors should be resolved at the Supervisor's Hearing and that it is improper to burden higher levels of appeals with such technical matters. If the worksheet con-

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<sup>5</sup>Article 81, Sections 213, 214, allow refund of taxes paid on an erroneous assessment but only when the error is clerical, mathematical, or by machine, subject to the statute of limitations.

tains an error which affects the property valuation, the assessment should change when the error is corrected.

The appeal process as now constituted recognizes the need for a method of correcting an erroneous and improper assessment whenever discovered, before the tax is paid. In such a case, the taxpayer can file his appeal with the final assessing authority, the Supervisor of Assessments and also, in Montgomery County, the Director of Finance. (Article 81, Section 67). By this method an appeal can be opened after the date of finality. However, this method cannot recapture taxes paid on an erroneous assessment. The Task Force believes such recapture of taxes paid should also be possible and recommends enabling and funding legislation to that end.

F. Who Appeals, To Whom, and With What Results

Almost no information is accumulated or reported at any stage of the appeal process as to the types of properties appealed or the outcomes of appeals. It is not known who is served by the appeal process. It is not known what types of assessment are appealed and what types win reductions.

In an attempt to gain some idea of who appeals and who wins reductions, the Task Force reanalyzed two sources of data to prepare the following limited description.<sup>6</sup> One data source used, Table X of the Public

<sup>6</sup>No data at all was available from which to prepare even a limited description of the Supervisor's appellant population. In general, that population is known to be much larger than that heard by the PTAAB and even more predominantly comprised of residential property owners. A survey done by the Task Force indicates that there are about 4,750 residential hearings annually by the residential assessors and about 500 commercial hearings by commercial assessors. In addition, numerous pre- and post-hearings contacts occur, presumably apportioned similarly as to residential or commercial property. Only a small fraction of these

Advocate's Quarterly Report to the County Executive, provides information about appeals before the Property Tax Assessment Appeal Board. The second source, a table in the Annual Report to the Governor by the Director, State Department of Taxation and Assessment, describes appeals before the Maryland Tax Court. Neither source provided data of the type and detail recommended above in the discussion of assessment testing.

Appellants before the PTAAB are predominantly (78 percent) residential property owners, with the remainder being apartment properties (12 percent), commercial (7 percent), and industrial (3 percent). Whereas residential owners appeal both land and improvement assessments at the same time, apartment owners appeal only the assessment of the improvement and industrial property owners more typically appeal only the land assessment. Commercial property owners appeal the improvement assessment more often than the land. Although the category "apartments" in these data includes condominiums, the Task Force assumes those appeals predominantly concern rental unit buildings.

The dollar value of apartment assessments appealed before the PTAAB is the largest (72 percent) share of total appeals, followed by commercial and residential (13 percent each) and industrial (2 percent). Apartment improvements comprise 64 percent of the total dollar volume appealed to the PTAAB.

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6 (continued) owners persist in their appeal to the PTAAB. Over the past two years an average of about 900 cases annually were heard by the PTAAB. Hence, this limited description of who appeals applies to only a fraction of the entire population who enter the appeal process. Information reported is for the 1975 or 1976 levy years in most cases.

Apartment properties had the highest reduction decision rate: 57 percent of apartment properties won a reduction on their improvement assessments and 14 percent won on appeals of their land assessments. Of the \$31,160,000.00 total reduced, apartment improvements account for 74 percent.

The next highest reduction decision rate is industrial property appeals of land assessment (41 percent rate), followed by commercial improvements (34 percent rate), residential land and improvements (25 percent rate), and commercial land (23 percent rate). Remaining categories of reduction decision fall below 10 percent. These reductions share more or less equally in the remaining quarter of the \$31,160,000 total reduced assessments before the PTAAB: about 10 percent each for residential and commercial property, but only 2 percent to industrial property appeals.

Another way to look at the overall performance of the appeal process is in terms of how big a reduction, relative to the amount of the assessment, is won by different types of appeals. Using the PTAAB reductions as examples, available data indicate a ranking as follows: industrial land -- 10 percent assessment reduction; residential land -- 8 percent reduction; and commercial improvements -- 6 percent. Remaining categories, including residential improvements, average a 3 percent reduction in the amount of the assessment.

Of cases decided by the PTAAB in the year ending 30 June 1977, about one-third resulted in reductions of the assessment. Of cases resolved by the Maryland Tax Court in 1975, about 20 percent resulted in a reduc-

tion of the assessment. These data are not available by type of property; neither are data for comparable years available. This is unfortunate since a 1977 PTAAB case carried to the Tax Court is likely not to be resolved until 1979 at the earliest, and thus there is no information about the overall reduction rate for assessments which start in the appeal process and persist through these two stages of the appeals process. It should be noted that in addition to property owner appeals, cases before the Tax Court may have been appealed by the Supervisor of Assessments or the County Attorney (from 5 to 10 percent, perhaps). Virtually all cases at the PTAAB are property owner appeals.

The Task Force was not able to pursue the question of "who benefits" from the appeals process in a more detailed way, nor to explore reasons why different classes of property predominate at higher stages of appeal than are found at the first stage.

The Task Force could not, as well, develop data to account for the fact, clearly implied by the preceding data, that whereas residential properties comprise the great majority of all assessed properties and of the total value of all assessments, residential properties are a minority of all reductions which result from appeals. Several possible implications of this fact clearly can be significant for either the appeal process or the assessment process: perhaps residential assessments are inherently more accurate; perhaps the appeal process is not constructed to judge residential assessment accuracy effectively; perhaps assessment methods for non-residential properties are defective and easily overridden by appeal.

G. The Property Owner and Appeals

The Task Force found evidence that property owners use the appeal process for purposes other than to correct an assessment. Among these uses are repeated appeals by property owners who do not accept the decision of the due process system or who, having lost, appeal repeatedly so as to "cost the system." Most typically, however, improper use of the appeal process occurs when the property owner uses the appeal to protest his tax burden.

Between 25 and 50 percent of residential owner appeals are felt to be of this type, according to those professionally involved with the appeal process. Such appeals typically fail, however, while burdening the appeal process. The Task Force recommends that a mechanism be established so that tax protests and hardship appeals can be heard outside the assessment appeal process.

The Task Force found evidence that the lone residential owner-appellant is in a disadvantaged position in the appeal process. Unable to afford counsel for an appeal which might reduce his tax bill \$50.00 or \$100.00, unfamiliar with appeal procedures, ignorant of assessment law and methodology, unpaid for time spent on his case or at hearing, and without example or instruction as to how to prepare an appeal -- the property owner appeals from a position of natural handicap. Not surprisingly, the Task Force received testimony that some appellants view the entire assessment and appeal process as a "no-win" situation. Approximately 80 percent of residential appeals do indeed "fail" -- that is, the assessment is affirmed.

The no-win factors. The first factor results from the practice of computing the sales analysis correction (see Chapter IV) so that the average sale ratio is approximately .475 rather than .50. The result is that most properties cannot be shown during appeal to be assessed more than .50 of market value. The property owner who appeals on the basis of overassessment relative to comparable properties will typically not win, no matter how desperate the assessments, so long as all are under .50 of market value.

The second factor results from the assessor's use of data for sales that occur during the 12 month period prior to the date of finality to justify his assessment to the property owner and to defend or explain his assessment during appeal procedures.<sup>7</sup> As explained in Chapter IV, the assessment is an estimate that refers to a specific time, namely to the base data period on which the sales analysis is computed. Since this 18 month period precedes the year before the date of finality, the average "time" for which the assessment is computed (is valid) is 21 months before the date of finality. The no-win factor results when the assessor uses sales data from the period 12 or fewer months before the date of finality. Such sales are typically higher in price as a result of inflation over that year.

The third factor is a consequence of the statutory definition of an assessment as .50 of market value. As interpreted in the appeal

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<sup>7</sup> Assessor's typically ask the property owner whether the assessment implies an unrealistic sale price. This question is often asked as-of-the-present-time or after referencing prices of similar properties which sold during the 12 month period.

process, this definition becomes an absolute standard -- that is only an assessment at more than .50 of market value can be called an over-assessment. However, an absolute standard perpetuates relative inequities of any degree so long as they are less than .50. In effect the absolute standard prevents the appeal process from improving uniformity of assessments by appeal of relative overassessment.

To correct these no-win factors, the Task Force recommends the following actions:

1. That the assessment office change sales analysis computations to target the correction at .50 of market value (or .45 for owner-occupied residences).

2. That legislation be enacted to prohibit the assessor from quoting, during appeal or informal discussion with a property owner, sales data which post-date the sales analysis base data period of the levy year at issue.

3. That legislation and/or administrative regulations of the PTAAB and the Maryland Tax Court specifically require that decisions in appeal cases (which are based on comparisons with assessments and sales of similar properties) be limited to using assessments and sales in the sales analysis base data period.

The Task Force also recommends that the Notice of Assessment carry the statement: "This assessment refers to property values in the period July 19-- to December 19-- and is not an estimate of likely sale prices in later period."

H. The Assessor and Appeals

The appeal process is a substantial burden on the assessor and inevitably detracts from time available for improving assessment uniformity. Especially at the hearing level of appeal and during contacts prior to the hearing and later, the assessor attempts to educate and mollify the owner as to his property assessment.

The Task Force recommends that these attempts be replaced wherever possible with prepared literature and by making openly available all materials relevant to the owner's assessment. The Task Force recommends specifically that:

Decisions from relevant appeals be shown to property owners.

Worksheets from comparable properties be shown.

The owner's assessment handbook (see Appendix D) be provided to explain assessments.

The 30-day limit for lodging an appeal be extended to 45 days so that owners have time to understand their assessment.<sup>8</sup>

Sales analysis computation sheets be shown.

Since prepared materials cannot be expected to answer all questions, the Task Force also recommends that a "paraprofessional" be trained and assigned to dispense these materials and assist owners. The Task Force expects the cost of implementing these recommendations will be directly offset by savings in appeal related use of assessor staff time.

<sup>8</sup> Although this limit has recently been raised from 20 to 30 days, yet an additional period of time, given the recommended new information items to be given property owners, will help reduce the incidence of hasty or frivolous appeals.

It seems reasonable to assume that when an owner believes he has been fully heard at the supervisor's hearing and feels that the assessor understands the case presented, there then will be less chance of an appeal being pursued than when the owner feels he has not really "been heard." Information from the Task Force survey, plus reports from officers of the appeals process, indicate that some appeals are caused by some assessors' attitudes of not listening and not caring. The Task Force recommends that the Supervisor of Assessments initiate training of his assessors to produce greater sensitivity toward the appealing property owner.

I. Property Tax Assessment Appeal Board (PTAAB)

The PTAAB, the final assessing authority at the county level, is the first step in the appeals process wherein the property owner and assessor face each other as adversaries before a third party. This body was established in 1973 to provide local review of personal and real property assessments by a panel of peers.<sup>9</sup> The term of each of the three board members is five years; the position is officially part-time. Each member is a county resident, appointed by the governor from a list of persons submitted by the county executive with the approval of the council.

The board is a State agency and is independent of the Department of Assessments and Taxation organizationally, operationally, and in terms of its authorizing legislation. In the past, as an administrative con-

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<sup>9</sup>Section 248, Article 81. The predecessor body was the Appeal Tax Court for Montgomery County, established 1949.

venience, secretarial support, office space, and the operating budget were provided by the Supervisor of Assessments. Starting in 1978, the PTAAB will be a separate item in the state budget.

The PTAAB operates very largely in isolation from any part of the assessment or appeal process. The Task Force could identify only two inputs to the PTAAB: a courtesy copy of the occasional guidelines of the State Supervisor of Assessments and a copy of such written Tax Court decisions as it may distribute as being of general interest, or which the PTAAB might request. As is true of the entire appeal process, the PTAAB neither sends nor receives on a regular or systematic basis any information about decision reasons or assessment methods. Neither does the PTAAB compile data about its own work to show patterns of assessment reduction, trends in appeals, faults in assessment methods, who wins or who loses appeals, etc.

For the most part, the Task Force found the PTAAB alert to the usefulness of such information, but lacking the staff and budget to provide it to themselves or the authority to require it of others. Given their part-time status, an annual payroll budget (\$30,000) predicated on part-time work and limited purely to hearing appeals, the PTAAB has been unable to index and codify its own decisions. Similarly, the board has not been able aggressively to acquire and evaluate directives of the Supervisor of Assessments or Tax Court decisions.

Without such resources, consistency and coherence among decisions depends largely on the memory of board members, their accumulated experience, and a loosely kept reading file. Further, members may come

from any background, with or without experience in real property values. There is no training other than that given on the job by other board members.

Residential appeals typically involve data and argument within the scope of experience of the board, however, commercial, apartment and industrial property assessment appeals often require of the board skills equal those of the accountants, lawyers, and professional appraisers who represent such property owners.

The board operates under a variety of constraints ill-suited to resolving the above problems and inappropriate to the importance of the board's position as the last practical appeal for the great majority of property owners. One such constraint is the three day (actually three morning) budget limit under which they work.

Two of these days are hearing days and one is reserved for executive session and decision writing. Another rule under which they operate prevents pay to members for board-related work unless assembled in a quorum. Thus, members cannot (except at their own cost) do homework or otherwise work in an independent and professional manner. Finally, pay for an incumbent, hence experienced, member is low: sixty dollars per day. Appointments after 1 July 1977, however, will receive 50 percent more (\$15.00 per hour with a six-hour daily limit) whether these are experienced or not.

The Task Force recommends that a work and pay policy be provided for PTAAB members which is equitable and which recognizes the work load carried by them as an essential step of the appeals process.

Since the 1975 levy year, the earlier years of few appeals have been replaced by an avalanche of appeals in Montgomery County. In Baltimore City a backlog of 10,000 cases has required additional temporary, full-time appeal boards be established. Potentially, the most important outgrowth of this avalanche has been the 1976 legislation to establish at the State level the office of Administrator, Property Tax Assessment Appeal Boards.

The Task Force has been told in 1977 that this administrator has produced an "Operations Manual for PTAAB" which would sharply improve operations. However, a copy of this manual has not been available for review in preparing this report.

#### J. The Maryland Tax Court

The Tax Court is the final fact finding administrative body and State agency in Maryland for matters relating to taxes, whether income, alcohol, excise, real property, or other. Since the local peer concept is not practical at the state level, geographic representation is the basis for appointments to the court. Two of the five judges are required to be lawyers and one also serves as chief judge. Tax Court judges are appointed by the governor.

The annual budget of the Tax Court is currently (1977) on the order of \$165,000, an amount which reflects the part-time status of the judges and the small size of their support staff of two secretaries, a deputy clerk, and the Clerk of the Court. Also included is the hearing examiner, a "circuit riding type" extension of the Baltimore-based court. Under recent legislative assignment of power to the court

to direct its own case load, the hearing examiner has effectively taken overall residential real property appeals and other appeals, of less than \$100,000 assessment.

In 1977, about 2,000 cases were reported waiting upon the court, largely real property matters and including residential assessment appeals predating the court's power to assign these to the examiner. Appeal from the PTAAB will typically reach the examiner in about one year. The Task Force notes that substantial portions of real property cases are delayed from final resolution (and contribute to the back-log) by property-owner-requested postponements. Forthcoming expansion to three examiners and increase to \$500,000 of the limit of their jurisdiction should reduce this backlog and delay.

The Tax Court distinguishes between decisions of general applicability and/or impact on the law and those cases which are specific to given property or of limited impact. While written decisions are issued in all cases, these are indexed and compiled only for those decisions of general impact. The court does not accumulate data by win/lose or other parameter of outcome, by type of case, or amount of assessment.

Given the importance for precedent of Tax Court decisions, the Task Force recommends a detailed annual report be produced which describes the types of cases which appear before the court and their outcomes.

K. The Public Advocate for Assessments and Taxation

This office, established by the Montgomery County Council in July 1974, exists outside of but parallel to the state-operated real property assessment and appeal organization in Montgomery County. The

advocate is twice unique: this is the only such office among Maryland counties and this is the only oversight function of any portion of the Maryland assessment organization. In this oversight function, the advocate has focused on two areas: the technical area of assessment methodology and the more policy-related area of equity analysis, tax burden distribution, and patterns of assessment and appeals.

The advocate derives power indirectly from two sources. One is the constitutional provision whereby legislation prepared on behalf of a county government is submitted to the General Assembly. The second is the language of Article 81, Sections 255 (a) and 255 (b), which permits the advocate to appeal any property on behalf of the County. This latter statute is the basis on which the advocate can appeal assessments and appeal decisions which he sees as under (or over) assessments.

This office alone, in the State of Maryland, seeks to identify underassessments and to correct them toward equity with other assessments through the appeal process.

For the 1977 Levy Year, for example, the advocate reports having requested a review of 162 assessments for the reason that their assessment/sales ratios were very atypical. Assessment inequities are identified via three mechanisms by the advocate: by analysis of sales reports produced from the assessor's data base, by observation and review of appeals before the Property Tax Assessment Appeal Board (about 1000 yearly), and by review of supervisor hearing decisions (6000 yearly). The advocate summarizes his analysis of sales to the county executive each quarter.

1. Quarterly sales analysis. The Task Force evaluated the ten quarterly reports since 1974 and prepared the following summary of specific findings. More important than any one finding is the fact of the reports themselves: they are the only management-oriented, analytic, and interpretative statements produced about the performance of the assessment and appeal system.

Among findings of the quarterly reports in recent years are the following:<sup>10</sup>

- Commercial/industrial property assessment-to-sale price ratios tended to be higher than ratios for residential property, though still below the legal assessment target of .50.
- Tax burden has fallen more on residential property in recent years, partly as the result of rapid rise in home values caused by drop in new home construction. Other economic factors also have led to sharply increased prices for new and existing homes.
- Sales of condominium units and apartment buildings were reported without distinction as "apartments" until early 1977. Hence, apartment building sale data are obscured by the many condominium unit transactions in the assessor's data base. Since 1977, the assessment office at the request of the advocate has reported these data separately. As a result it was found that assessment-to-sale ratios are higher for condominiums than other types of property.
- Assessment reductions resulting from appeals before the PTAAB are proportionally greater for legitimate apartments (not condominiums) than for other types of property because apartments are assessed on a capitalized income basis and the net return to the investor was frequently less than what the supervisor had estimated.

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<sup>10</sup> Their report here is not necessarily an endorsement by the Task Force.

2. Methodological deficiencies. Lack of even modestly sophisticated computer processing (typical throughout the assessment area) is the weakest area in the work of this office. Another weakness is in the treatment of data where the objective is to find gross patterns of changes in assessments. For example, yearly and trend data should be computed statistically, rather than estimated from differences among successive quarters of data. A quarter is too short a period, given market variations, from which to analyze assessment effectiveness and to detect trends.

The Task Force recommends the advocate be given an additional staff statistician/economist plus substantially expanded computer support with which to analyze the assessor's data base. Computer programs should be designed to produce summary type output which reports measures of assessment accuracy and equity by subdivision and by election district. These reports should be publicly available by 30 September annually.<sup>11</sup>

The Task Force recommends that the advocate also develop more technically adequate measures of equity than the assessment-to-sales ratio in current use. For example, equity is best measured in terms of assessment variation or dispersion.

3. Legislative recommendations. In the past three years, the advocate has prepared legislation to require disclosure by commercial property owners of income data needed for assessments using the capitalization method.

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<sup>11</sup>This advocate report on assessment quality will complement the report on assessment and sales data proposed on page VI-11.

In addition, the advocate reviews relevant legislation before the General Assembly and testifies as appropriate. For the 1977 session, 112 bills were reviewed and written commentary was provided for more than half. Testimony was given before legislative committees on four occasions. Three pieces of legislation were initiated, of which one (dealing with condominium assessment) became law. The value of this testimony and the technical expertise with which it is given can be measured by the fact that the advocate is a member of the Tax Assessment Study Task Force Committee of the State of Maryland.

4. Assessment methodology. The advocate's work leads him to develop numerous recommended changes in assessment methods, both of a technical sort and to reflect policy he regards as desirable. Among these have been the following:

- Assess at 100 percent of market value rather than an artificial 50 percent.

- Assess annually, rather than return to triennial assessment.

- Release worksheets and sales analyses for residential property.

- Use income, reconstruction cost, and market value approaches on commercial and industrial properties.

5. Assessment policy and tax policy. Social policy, tax policy, and assessment principles are largely entwined. The advocate has generally been careful to distinguish policy from technical issues while recognizing their practical relationships. Among issues of a policy sort on which the advocate has written are the following:

- Prospective rezoning as a factor in present assessments and hardship cases.

- Land use criteria and agricultural assessments.
- Country club agreements as "negotiated" assessments rather than market value appraised quantities.
- Circuit breaker versus property liens or deferred taxes for relief of hardship cases.
- Tax burden shift resulting from underassessment of income properties.
- Elimination of assessment reduction on land for reason of sewer moratorium.
- Personal property assessment of professionals (dental equipment, office equipment, etc.) and methods whereby to measure underassessment.
- Supervisor's use of a depreciation rate in Montgomery County lower than that specified in the assessor's manual or used in other counties.

Raising such issues is essential to a rational and viable tax system based on property ownership. The Task Force recommends that the advocate continue his analyses of assessment and tax policy.

6. Cost effectiveness of the advocate's office. To the extent that the advocate has identified and appealed underassessments successfully, the result has been increased revenues for the county. For its first three years, the office budget was \$50,000 annually, on average. With the addition of an assistant public advocate, the 1978 budget will rise to \$72,000. The advocate's work has resulted in annual revenue increases of more than twice the cost of the work.

These revenues resulted from an upward reassessment of \$580,000 in cooperative apartments; a \$4.5 million increase in commercial/industrial property assessments in the second and fifth election districts for the 1976 Levy Year; and from correction of an error in a single large pro-

perty assessment for an increase in revenues of \$30,000. Not counted above are revenue increases from removal of the 25 percent allowance on land to compensate for the market impact of the sewer moratorium, nor the revenue effect of more timely input into the assessment data base of sectional map amendments.

Since underassessments or assessment errors are likely to have the characteristics of a self-replenishing resource, the Task Force recommends the advocate continue this work of identifying and appealing underassessments. The Task Force recommends more effective use of computer processing to review assessments. Further, an algorithm analagous to that by which the Internal Revenue Service selects income tax returns for audit should be developed so as to identify assessments needing closer review.

7. Public image of the advocate. Survey findings are that property owners before the Property Tax Assessment Appeal Board saw the advocate most often helping the board's or the general understanding. (Appendix C) About a fourth saw him helping their case, only five percent as helping the assessor's defense, and ten percent as making no comment. No property owners reported using his office to prepare their case.

However, the Task Force has information that other property owners see the advocate as useless and as another adversary to their appeal. These persons, in the Task Force's opinion, have been deceived by the name of this office, which easily connotes that the advocate is their counsel and/or consultant against the assessor.

The Task Force recommends that the name of the office be changed to the Office of Assessment Review.

L. Assessment Methods and Appeals

The Task Force found several circumstances where a good faith appeal might be frustrated by assessment methods, where an appeal can be precipitated when not really necessary, or where an appeal was made unnecessarily burdensome. Many of these instances have been discussed above in the context of the property owner, the assessor, or the third parties in the appeal process. This concluding section looks at appeal problems relative to assessment methodology. Methodology includes practices and administrative regulations within the assessment office as well as the basic methods of real property assessment.

1. Disclosure of assessor's defense. Currently, the assessor is required to reveal sales information planned for use in the defense of the assessment when the case is before the Tax Court. (Maryland Tax Court Rule #7). This is not required when the case is before the PTAAB. Disclosure of information is now required of the appellant at all levels of appeal but often ignored at the PTAAB level. The Task Force believes full disclosure of both parties at all levels would result in a more efficient and fact-oriented process since all parties would be equally informed. The great majority of appellants progress only to the PTAAB and should have the benefit of this disclosure. The Task Force recommends that practices of disclosure of information for cases before the Tax Court be required equally for cases before the PTAAB.

2. Separately stated assessments on land and improvements.

Currently, the notice of assessment shows the land and improvements as separate assessments, thereby leading many property owners to assume these are amounts arrived at independently of each other. In fact, the assessor determines the market value of the entire property and then apportions this total between land and improvements. As an accident of the apportionment method, extraordinary increases in one or the other of land or improvement have resulted and have led owners to appeal. The assessor is typically successful in defending the assessment of the entire property. To clarify the situation in such appeals, the Task Force recommends that the notice of assessment repeat the statutory relationship between the total assessment and its land and improvement components.

3. Appeal decision and subsequent assessments. Currently, reduction as the result of an appeal applies only to the assessment appealed and in no way binds the assessor in subsequent year assessments. The Task Force recommends: (1) that the findings of the appeal bind the assessor in all future assessments, as long as the property condition which justified the reduction does not change, (2) that the appeal body stipulate as part of its decision whether the reduction is limited to the appealed assessment; and (3) that the assessor modify the property description on the worksheet to conform with the appeal decision.

4. Reasons for assessment change. Currently, the notice of assessment is issued with no indication as to the reason for the change in assessment. As a result, many owners call the assessment office, which

means the worksheet has to be pulled from files and the assessor talks to the owner. The Task Force recommends that a computer-prepared statement of the following sort accompany the change notice:

- Increase was based on sales analysis of other properties in your subdivision. (Analysis available on request.)
- Increase results from property improvement.
- Increase results from assessor's direct inspection and estimate of the reconstruction cost of the improvement.
- Decrease results from appeal.
- Change is result of other cause. (Call 279-1601 for details).

These items could be computer generated and "checked-off."

CHAPTER VII  
POLICY ISSUES

A. Introduction

Previous chapters have described assessment practices as applied to residential, commercial, industrial and condominium properties in Montgomery County. These practices and properties provide the bulk of the money raised by the property tax and are currently receiving serious attention from citizen and elected official alike. There are other properties, namely totally exempt and farm assessed, which contribute little or nothing to the flow of revenue to the County. These exceptions have been legislated into being, such action being deemed to be in the public good. The Task Force's consideration of these policies are discussed in this chapter. Two exceptional aspects of the assessment process not considered in any depth despite their significance are:

(1) Assessment of Personal Property: The Maryland Code authorizes the taxation of personal property constituting the stock in business of persons, firms and corporations engaged in manufacturing or commercial business, and operating property of railroads, public utilities and contract carriers. Personal property constituted 12% of the County's tax base in fiscal year (FY) 1976. The difficult assessment of this type of property belonging to local, non-incorporated businesses is carried out by two persons in the Assessor's Office. A recent report ("The Maryland Economy-Status and Outlook, 1976-1977," Department of Economic and Community Development, State of Maryland), recommends the elimination

of the local property tax on machinery and equipment and the replacement of the lost revenues by increasing the corporate income tax.

(2) Taxation of Property by Cities and Municipalities Within Montgomery County: A number of jurisdictions within Montgomery County levy their own property tax, the property tax base being established by the Assessor. Details of this process, such as who certifies the property base to the jurisdiction, were not considered.

B. Totally Exempt Property

The Maryland State Code has provisions that totally exempt certain classifications of property from taxation. These include property within the County which belongs to Federal, State, County and Foreign governments; property owned by religious, non-profit and charitable organizations and property belonging to certain individuals such as the blind and wounded veterans. Since one of the criteria used to determine the amount of Federal and State shared revenue is the value of the County's total property base, the value of this land is assessed by assessors from the State Department of Assessments and Taxation.

In July, 1976, there were 6,324 properties, with an assessment of .935 million dollars, the exempt land covering 50,867 acres, or 17% of the total assessed land in the County. At a tax rate of \$3.75 per hundred dollars, this property would have brought in \$35.1 million dollars in revenue to the County. The magnitude of this sum implies that it is in the County's best interest to get these lands into the production of revenue. While lands belonging to the Federal, State

and local governments is beyond the taxing power of the County, excess land owned by the County itself could be used by the private sector to produce revenue. Forty percent of the exempted land is owned by the County. The County's Land Management Unit is initiating an inventory of County-owned property to identify and dispose of surplus land, and since January 1978 has identified surplus land appraised at \$700,000.

It is recommended that Montgomery County continue to study its property rolls to determine if exempt and unused properties can be returned to revenue production.

The 1,679 exempt accounts that are owned by private, non-profit and miscellaneous organizations are treated in the Assessor's office by the same two persons who are also responsible for assessing local personal property. It is no reflection on the individuals currently doing this work to state that effort of this magnitude requires a greater staff.

It is recommended that a detailed study be made of the existing exemptions of private, non-profit and miscellaneous exempt properties to ascertain their conformity with existing requirements.

#### C. Farmland Preferential Assessment

The value of farmland in Maryland, as in other states, has increased rapidly in past years due to the need for land for building and development. To alleviate the farmer's very real property tax problems, the State passed legislation that requires the valuation of

agricultural land based on its current agricultural use rather than its potential use. If land meets a number of legislatively specified criteria, it is declared to be farmland and the assessment is determined by the estimated yield of the land. The amount of the assessment is based on the quality of the land, its estimated yield of corn per acre and on prices of the early 1960s.

In July, 1976, Montgomery County farmland assessment covered 139,000 acres, 56% of the total taxable County land, 45% of the total assessed land. Its total assessed value was 49 million dollars, nine-tenths of one percent of the County's total taxable base. There were 2,309 individual accounts.

The difficulty with farm assessment, at least in suburban counties such as Montgomery, lies in its potential as a tax shelter for land speculators. Multi-million dollar tracts of land can be held indefinitely, at little cost to the owners so long as minimal farm operations are carried out.

Farm assessment was initially seen as a way to keep farmers from being forced off their land by developers during the land boom of the 1950s and early 1960s. Instead, its major effect seems to have been to allow farmers to keep their land until the price was right. In other words, the rate at which development encroaches on farmland is subject to the same market forces as always, but the farm assessment law allows the farmer, rather than the developer, to cash in on some of the profits. Testimony on proposed farm assessment legislation indicates that farmers are well aware of this advantage.

Most of the proposed modifications to farm assessment have ignored the concept of the farmer as speculator, and instead, dwelt on ways to distinguish between a developer or holding company and a "bona fide" farmer. Recent legislation denies farm assessment when the land is sold for development, rezoned at the owners' request, a subdivision plat is filed, or lots sold on the basis of an unrecorded plat. The land is reassessed at full market value, and two years regular taxes must be paid before building or occupancy permits can be issued. Farm assessment should be awarded only to those owners who cede development rights to the public for a term of years, perhaps 20. Since nothing else can then be done with the land except to farm it, market values should initially reflect the land's potential as a farm. Since a term easement would be carried as an encumbrance upon the deed, farm useage would survive the death or retirement of the farmer. Probably, market value (and assessed value) would be affected by development potential some years before the easement expires, so that the easement should be renewable by mutual consent after 15 years.

D. Citizen Relief

Inflated land prices in Montgomery and other counties have greatly increased the value of land and have resulted in very high and rapidly changing assessments. Accordingly, the Maryland State Legislature has passed a variety of laws aimed at giving relief to the property owner. These have taken a number of forms.

1. Property owners whose assessment had increased over 36% in one year were allowed to pay the increase in installments over a

three-year period. This phase-in "loss" in revenue in Montgomery County was \$4.5 million in 1974; in 1975 it was \$8.5 million and in 1976 it was \$14.7 million. This measure was repealed in 1976 by Chapter 238.

2. The Legislature, in FY 1977 and in FY 1978 passed a law which gave a tax credit for the year to residential assessments if they met certain conditions. The effort to locate and properly assess the affected homeowners has cost the Montgomery County Information System (MIS) approximately \$24 thousand in computer and programmer time and has cost the Assessor's office many man-hours of effort as it manually studied thousands of worksheets to carry out the provisions of this law. It should be noted that, although MIS is acting as a contractor to the Assessment office in this matter, only \$1 thousand will, reportedly, be repaid the County by the State for this work. Despite this effort, newspaper reports indicate a number of citizens will not get the assessment relief due them unless they themselves discover it.

3. Residential homeowners who meet certain income and total net worth restrictions will receive deductions from their tax bills. This "circuit-breaker" was originally meant to benefit retired persons who own property of some value but whose income is limited. Its provisions were extended in 1978 to persons under age 60. (HB 1168) The circuit-breaker was established by the State of Maryland which absorbs the loss in revenue. It takes the place of relief measures which were in effect in various counties and precludes the counties from passing new homeowner relief measures. The circuit-breaker does not apply to renters

even though property tax increases are passed on to them by the owner of the property. Tenants remain eligible for County relief measures.

The citizens must specifically apply for relief under the provisions of the circuit-breaker. It is granted to individuals after study by a staff in the Assessor's office. Complaints have been received that filling out the form involved presents problems to some individuals. In 1977, 7,174 Montgomery County circuit-breaker applications were approved for a total tax relief of \$3.1 million dollars. An additional 2,245 applications (23% of the total) were disapproved. No analysis was made of the financial, age or other status of the disapproved applicants or of the reason for disapproval.

4. In 1974 the State "rolled back" the level of assessments on all properties from 60% of full market value to 50%; this move being followed in 1978 by a roll-back for owner occupied residential properties to 45%. These actions do not necessarily affect the final sum paid by the taxpayer, since local jurisdictions have the power to reset the tax rate in accordance with their needs. The recently legislated requirement that jurisdictions publicly justify increases above the constant yield tax rate may serve as an inhibitor on the size of the increase.

The Task Force is aware that there are other means of extending tax relief to citizens, such as the Homestead exemption, wherein value of an assessment, no matter how high or low, would be reduced

by a flat amount.<sup>1</sup> This means of relief would proportionately benefit those owning lower-priced homes than those with more expensive homes and it would be straight-forward to administer. The loss in revenue is high, however, and tax rates may have to be increased across-the-board to compensate for this.

A deferral of any tax due until the property involved is sold is another means of providing citizen relief, at the same time assuring the County that it would ultimately receive the money involved. Putting limits on the sum that could be deferred, charging interest on the deferred amount, making entry into the program a voluntary matter and having the State advance funds raised on a bond issue secured by the anticipated payment of the deferred monies, are provisions that strengthen tax deferrals. The possibility of the catastrophic loss in value of the property, with resultant loss in the sums that could be realized, the difficulty in estimating the flow of revenue into the County Treasury, and the loss of estate to potential heirs are factors of concern dealing with tax deferral.

The Task Force believes that property taxation should not be a crushing burden on citizens much less an instrument which drives individuals from their homes. The State's approach of identifying classes of people adversely affected by the tax and granting relief to that class is to be applauded. Specific recommendations as to needy classes and to means of extending relief are beyond the resources of this Task Force.

It is recommended that the mechanism of granting circuit-breaker exemptions be simplified.

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<sup>1</sup>A 5% Homestead allowance was established in 1978 by HB 766 Chapter 175, Laws of 1978.

APPENDIX A

REVIEW OF APPRAISAL MANUAL FOR MARYLAND ASSESSORS

Issued by: State Department of Assessments and Taxation,  
Baltimore, MD 21201

Prepared For: State of Maryland Department of Assessments and  
Taxation by Thomas L. Ball, ASA, Valuation Advisor  
(Copyright 1970, Reissued 1973) - 5 volumes (volume 3  
contains 2 books)

VOLUME I - Residential  
(Looseleaf, 10 tabs unnumbered)

TAB I. General. This section contains a "Forward" by Albert W. Ward, Director, June 1970. It states that the Appraisal Manual is issued to serve as an aid to Maryland Assessing Officers and to provide a systematic procedure for estimating replacement cost new for various types of structures.

TAB II. Introduction. There are three separate volumes covering: residential and agricultural structure (Volume I), commercial buildings (Volume II), and industrial buildings (Volume III). It states that cost data is based on Baltimore City in January 1970 which is given an index of 100 (apparently there was no manual at all prior to 1970). Each January a new index is issued giving multipliers for each County in Maryland and Baltimore City with index numbers as a percent of Baltimore City construction costs in 1970 (with costs of construction

ever rising these percentages have always been over 100% and some indexes have passed the 200% mark for 1976. However, instructions are given for making appraisals for dates in between two successive Januarys. Many other major appraisal services supplying such cost index data will update on a monthly, bimonthly or quarterly basis. This makes quite some difference for recent years when cost of construction is rising at a rate exceeding 10% annually; this may contribute to lower assessments on many types of properties.

The Task Force recommends updating time/location modifiers more frequently than once a year

TAB III. Land. There are four major use classifications for land in Maryland: residential, commercial (selling commodities or services PLUS apartment buildings, hotels, motels, and summer resorts), industrial (business of producing, fabricating or combining goods), and agricultural (farming use). There are two methods of valuing land mentioned in this tab: comparable sales and the land residual technique of capitalization. This latter should not be confused with the Maryland assessor's valuation of land by a residual technique of valuing a total property by comparable sales and then subtracting the value of the building obtained by reconstruction cost less depreciation. The land residual technique of capitalization consists of allocating an amount of net income to the building based on its value determined by the cost approach and then capitalizing the residual net income at an interest rate commensurate with the marketplace. It is

applicable only to fairly new income-producing commercial properties and is rarely used by Maryland assessors. Land is supposed to be valued by the "Unit Foot" which represents a strip of land one foot wide and 150 feet deep. Adjustments for deeper and shallower lots are made using depth factor charts for residential and commercial lots including figures for lots 5 to 400 feet deep. It appears that assessors are using either acreage, building lots or square feet and following the book reluctantly in order to fill out the required data on the assessment card which requires a front foot (unit foot) value.

The Task Force recommends using square feet or acres instead of front feet for residential and commercial values.

There are detailed instructions explaining how to value corner lots, alleys, double frontage lots and irregular lots. The Manual states that agricultural land value is based on agricultural use value as "determined by the supervisor in each district."

TAB IV. Depreciation. This section describes depreciation as deterioration (curable and incurable), and obsolescence (functional curable, functional incurable, and economic). It goes into great detail explaining how observed depreciation must consider each of the above factors giving each a dollar value and then making successive deductions from the cost to reconstruct the building new. It then states that workload and pressure of time generally requires percentage depreciation and a series of graphs is provided showing, for example, that for a fifty year old good residence depreciation should be a total of 38%

and that for a fifty year old average house it would be 47%. Assessors claim they are not bound even by this rough method, thus making observed depreciation a matter of pure opinion and very susceptible to use as a fudge factor to make the value obtained by the cost approach fit any target value.

The Task Force recommends providing a better method of computing depreciation.

TAB V. Building Cost Index. County indexes are provided for frame and brick residences. These figures have been compared with the three most widely used services providing cost data. These are:

1. Boeckh Building Valuation Manual. Published by Boeckh Division, The American Appraisal Company (Milwaukee, Wisc.). Updated bimonthly;
2. Dodge Building Cost Calculator and Valuation Guide. Published by McGraw Hill Information Systems Company (New York). Updated quarterly;
3. Marshall Valuation Service. Published by Marshall and Stevens Publishing Department. Updated monthly.

Although each service uses a different base year and city, all contain an index for Baltimore for 1970 and subsequent years. For example, in 1973, while the Maryland Assessors Manual showed an increase in Baltimore of 30% over 1970, Dodge showed 36% and Boeckh showed 42%. In 1975, these figures were 41%, 67%, and 57% respectively. This points up another inaccuracy which compounds each year and will be worse where no other method of valuation is used. The Maryland Manual as a whole most closely parallels the Boeckh service with the following exceptions. Boeckh updates every two months, not once a year;

Boeckh uses cost figures based on market areas relating to sources of supply of materials and labor rather than artificial County boundaries as in the Maryland Manual.

The Task Force recommends, in place of County modifiers, using market areas, even though there may be more than one per County.

Square foot figures are now used exclusively by Boeckh and the other services while the Maryland Manual still uses cubic feet for many types of property (soon to be corrected in the revised manual). Depreciation by percentage is not recommended by any service; rather for example an age-life fraction is often proposed when detailed dollar depreciation cannot be gotten due to time or other constraints. The age-life method uses economic rather than chronological life, and remaining useful life, both determined by physical inspection of the property. Depreciation percentage then equals the economic life divided by the sum of the remaining life plus the economic life; converted to a percentage. For example, if a building is 35 years old but by inspection appears like a building only 25 years old and it is estimated that it will last 40 more years, the percentage depreciation is:

$$25/25 + 40 = 25/65 = 38\%.$$

TABS VI through X. These sections contain tables for properties described as: residential seasonal, residential cheap, residential average, residential good and residential expensive. Separate tables are provided for one story, two story and split level residences both

with and without basements for various types of construction materials such as brick, wood or stone. What is particularly good about these tables is that the base building and size-shape adjustment have been combined in a series of tables, rather than the 3 to 5 steps required by other services. This makes the assessor's job easier and less time consuming although it makes the Maryland Manual somewhat cumbersome (no problem if it stays in the office). Once an assessor determines the building material and grade (cheap, average, good, etc.), a single figure is obtained which multiplied by the time/location factor for Montgomery County for the current year yields the full reproduction cost of the building. Standard extras for garages, fireplaces, etc., must still be added, however, this method is employed by all the other three services. The most difficult job is converting to cubic feet a floor plan which is taken from the plans when the house is built and retained in the assessment file and then being updated for additions. This seems to be an unnecessary step; in addition basements and attics cause most problems. We are glad to learn that a square foot Manual is in the works or even now being field tested, which should eventually bring the manual in conformance with the general approach used by almost all appraisers -- that of using square feet of floor area.

TAB XI. Agricultural Structures. These are tables for farmhouses, barns, silos and many other agricultural and farm structures or improvements to the land.

VOLUME II. Commercial

(Looseleaf with ten numbered tabs)

TAB I. Introduction. This section is similar to Volume I except that properties are graded as cheap, average (standard) or good (custom-built by prestige organization). All tables are given for average construction and then an amount up to 5% is added or subtracted for good or cheap. Different percentages are provided for each type of commercial property, but they do appear to be remarkably small.

The Task Force recommends that there be more leeway than + 5% for cheap or good construction compared with average construction for commercial property assessments.

Grade is determined by observations and comparison with photographs and engineering specifications included with the various types of property. Architectural fees are added as a percentage of cost for each grade. A four part assessment card is included as an example.

TAB II. Building Cost Index. Modifiers for large commercial and industrial and small commercial and industrial properties.

The difference between small and large for each category may differ by more than 30% making it extremely crucial that the appraiser make the correct determination. There are no guidelines as to small versus large and there could easily be many grey areas where again opinion plays a large part in developing the building value.

The Task Force recommends using a sliding scale for Building Cost Indices for large and small commercial properties rather than two flat amounts which may differ by as much as 30%.

There are further breakdowns for apartments, hotels, and office buildings built of wood, brick, steel, brick and wood, brick and steel, and brick and concrete. (And all this only for the time/location multipliers for adjusting Montgomery County to the current year).

TAB III. Apartments, Hotels, and Motels. Apartment houses are described as any residential building containing more than four units. This section contains separate tables for garden apartments and high-rise buildings and gives cubic foot base prices depending on the ground area covered by the building, the building perimeter, the number of stories and the exterior materials. Separate tables are given for buildings with and without basement. In addition, there are add-on adjustments in dollars or percentages for the following.

1. Number of stories if more than table shows
2. Grade adjustment (cheap or good)
3. Wall finish (interior)
4. Heating
5. Kitchen and bathroom equipment and appliances
6. Balconies
7. Swimming pools
8. Paving, fencing and lighting
9. Sprinklers and fire hoses
10. Elevators

A depreciation guide recommends adjustments for each specific type of building. An example for Garden Apartments is as follows.

Excellent	Deduct 0 - 5%
Very Good	Deduct 5 - 15%
Good	Deduct 15 - 25%
Average	Deduct 25 - 35%
Fair	Deduct 35 - 45%
Poor	Deduct 45 - 60%
Dilapidated	Deduct over 60%

Again this is a guide based upon opinion and attempts to employ the age/life type of estimate, but again relies very heavily on the opinion of an individual assessor. There are specifications of construction and photographs to enable the assessor to select the proper grade of construction (cheap, average, or good), but which it is, is his opinion. Hotels and motels are generally treated similarly in structure to high-rise apartment buildings.

TAB IV. Automotive Sales and Service. This section includes such structures as gas stations, service stations, tire stores, automobile sales rooms, car washes, parking structures and implement sales (lawnmowers, farm equipment, etc.). Only the car wash and parking structure have square foot tables, the balance use a cubic feet.

TAB V. Food Service (restaurants). This section includes both fast food service structures and restaurant buildings using cubic foot tables.

TAB VI. Stores and Shopping Centers. There are numerous pictures and specifications for many types of retail establishments including:

1. Single retail stores
2. Supermarkets
3. Neighborhood shopping centers (supermarkets, banks and service stations are to be valued separately)
4. Regional shopping centers (excluding supermarkets, banks, service stations, office buildings, department stores and food service facilities which are valued separately)
5. Department stores

Deviations from the standard are adjusted by dollars or percentages in a manner similar to apartment houses. These adjustments typically include such items as: old style (prior to 1920 or 1920-1940), grade (cheap or good), wall, floor and ceiling finish, heating and plumbing, overhangs and canopies, paving and lighting. Depreciation tables are similar to those for apartments, retail stores, department stores and supermarkets are valued by the cubic foot; all others are square feet.

TAB VII. Office Buildings and Banks. Office buildings and bank buildings are valued by the cubic foot depending on the number of stories and the building material. Deviations are adjusted for: old style, number of stories (if not in table), grade, elevators, heating, plumbing, wall finish, paving and fencing. The depreciation guide is again similar to that for apartments.

TAB VII. Special Purpose Buildings. This group includes post offices, bowling alleys, theaters, nursing homes, funeral homes, animal hospitals, lumber and storage yards, airports, marinas and race tracks. Cubic foot tables are used for theaters, nursing and funeral homes,

animal hospitals and lumber yard structures, while square foot factors are provided for the balance. It is hoped that the newly revised manual will get rid of this hodgepodge of different factors some of which are not even correctly labeled, and come up with consistent square foot factors as the rest of the real estate industry did years ago.

The Task Force recommends using square foot factors rather than cubic feet consistently for commercial and industrial property except for warehouses or alternately using correct labels.

TAB IX. Unit Costs. This section breaks down buildings into components so that an assessor can get the reconstruction cost of any structure not included in the prior sections. It is also useful where additional structural components exist that are not included as deviation items. Items include: excavations, insulators, doors, windows, floor coverings, partitions, roofs, stairs, plumbing, septic and well systems, sprinklers, elevators, escalators, pilings, rail sidings, stacks, tanks, swimming pools, etc.

TAB X. General. This tab is blank.

### VOLUME III. Industrial

(Looseleaf in two books containing a total of 16 numbered tabs.)

TAB I. Introduction. Volume III is provided to assist in accurately estimating the reproduction and replacement cost of the many types of industrial structures. Buildings are graded as cheap, average and good using engineering specifications and sample photographs.

TAB II. Building Cost Index. This section contains County location/time adjustments for each January to the base of Baltimore City in 1970 for large and small industrial structures. Again these appear to consistently differ by more than 20%. Adjustments are provided for various types of construction: frame, steel, brick and wood, brick and steel, and brick and concrete.

TAB III. Office and Manufacturing. This section gives cubic foot factors for varying ratios of office to manufacturing space in buildings containing both. It includes deviation adjustments and depreciation tables similar to commercial property. Light, medium and heavy industrial buildings are determined by both building design and use. In light industrial buildings, floors and framing are minimal with a load range of approximately 100 pounds per square foot or less and used for light assembling, light fabricating or the equivalent. Medium industrial represents a floor load range of about 175 pounds per square foot and used for normal or average operations. Heavy industrial pertains to a floor load range upwards of 200 pounds per square foot and generally is used for heavy type operations.

TABs IV, V, and VI. Manufacturing Light, Manufacturing Medium, and Manufacturing Heavy.

There are cubic foot factors for various types of construction with deviation adjustment and depreciation tables similar to Commercial Property.

TAB VII. Office and Warehouse. There are three broad categories of warehouses; general warehouse building, general warehouse building modified in part for special storage requirements (such as cold storage), and special purpose warehouses. There are three broad ranges for warehouses similar to those for manufacturing buildings. Light warehousing indicates floors and framing are minimal with a load range of approximately 100 pounds per square foot or less and used for light storage only. Medium represents a floor load range up to approximately 175 pounds per square foot while heavy represents a floor load range for upwards of 200 pounds per square foot. Warehouse cost tables reflect minimum lighting, heating and interior finish; where there are numerous interior walls, partitions and building fixtures, deviation adjustment pages and a unit in place cost section are provided in a manner similar to that for commercial property. The tables for office and warehouse combinations are by percent of office in the total building similar to the office/manufacturing combinations.

TABs VIII, IX, X. Warehouse Light, Warehouse Medium, and Warehouse Heavy.

These sections provide cubic foot costs for various types and combinations of construction with sample photographs and specifications.

TABs XI - XIV. Not in use.

TAB XV. Special Purpose Buildings. These include: power houses, freezer buildings, dry kilns, whiskey warehouses, concrete and metal store bins, etc.

TAB XVI. Unit Costs. This section provides unit costs for any portion of an industrial structure and may be used to calculate reproduction cost by components of the buildings or provide costs for add-ons such as rail sidings, air-conditioning, stacks, tanks, fences, or partitions.

The cost approach is well suited for industrial properties which are unique and where sales of comparable properties may be difficult to find. If the Industrial volume of the Appraisal Manual is used properly and the revision uses square feet,

the Task Force recommends its continued use except where there has been a recent sale of the property being assessed

and then that price should govern unless the sale was not at arms length.

## APPENDIX B

### SURVEY OF RESIDENTIAL AND COMMERCIAL PROPERTY ASSESSORS' ROLE IN THE APPEALS PROCESS

- I. Technical description: Questionnaires were completed in August 1977 by 20 assessors of residential property and six of commercial property, for an overall response rate of 85 percent. Anonymous questionnaires were distributed and collected by the Supervisor of Assessments and forwarded to the Task Force for analysis.
  
- II. Findings: Quality, completeness, and consistency of the responses were very high, probably since many responses were computed by assessors from their time cards. Basic data are as follows, including combinations of data where reasonable:

The number of calls received daily as a result of notices of assessment ranged between 5 and 40 for residential assessors (mean = 19) and commercial assessors (mean = 15).

On the average, each call lasted nine minutes for residential property owners (5 to 15 minutes) and 12 minutes in commercial cases (3 to 20 minutes).

Combining the above, residential cases "cost" the assessor about two hours daily during the "notices season" and the commercial assessor about three hours daily. Perhaps more importantly as a measure of burden on a work day, these data mean that assessors can expect on average to talk on the phone about ten minutes out of each half hour, all day long, during this period.

Regarding reasons for property owner calls during the "notices season," the assessors reported 63 reasons, not all different. About a fourth were protests of tax levies in some form. Almost 20 percent were calls for technical information about assessment methods, meaning of notices or terminology, how to read a worksheet, etc.

In other "seasons" assessors reported a sharply lower frequency of property owner calls and a shift in reasons for calling. For residential assessors, the year-round rate of calls is about seven per week with an average call lasting 10 minutes. Commercial assessors get about 18 calls weekly of about the same length. Reasons for calls on commercial property assessment were less diverse and sharply less concentrated in the areas of protests (a fifth). Technical information-type reasons predominated (two-thirds), such as property information requests, questions about assessment methods, calls to check on worksheet accuracy, queries about possible assessment changes if the property were expanded or improved.

For assessors generally, about eight property owners are seen weekly, of whom perhaps half have an appointment. About the same number of lawyers, realtors, appraisers, etc., are seen weekly.

The preceding adds up to a substantial work load associated with appeals. For residential assessors, their estimates range from 10 to 70 percent, with an average of 27 percent, of their work year spent on appeals. Commercial assessors spend much less: 12 percent.

A very large number of assessor/supervisor hearings are involved in this appeal work. Half the residential assessors reported hearings at a rate that amounts to one a day (mean = 251 hearings annually). About 4750 residential hearings were reported for a typical year. About 500 commercial hearings were reported, at an average of 85 per commercial assessor.

Residential assessors appeared 33 times yearly and commercial assessors 37 times, for hearings at the Property Tax Assessment Appeal Board (for which one assessor commented a half day preparation time is usual). Almost half the assessors prepared cases at the rate of one per week.

Preparations for hearings before the examiner of the Maryland Tax Court were sharply less: an annual average of six for residential assessors and three for commercial.

Assessors were asked in what proportion of cases do they reduce an assessment on their initiative as a result of a property owner contact (i.e., before a hearing at the PTAAB or in a Supervisor's Hearing). Overall, residential assessors reported an average reduction frequency of 11 percent, and commercial assessors of four percent. The amount of these reductions is unknown, although one assessor volunteered his were on the order of five percent.

More interesting than these averages, however, is the fact that a fourth of assessors almost never give reductions (one percent rate), whereas another fourth frequently gave reductions (20-30 percent rate). Another fourth reduced assessments 5 percent of the time, and the remainder between 10 and 15 percent of their hearings or contacts. Whether these differences reflect individual differences in case load composition, or personality, or other causes is not known.

Assessor perceptions of the feelings and emotions of appellants before the PTAAB differed as to whether they handled commercial or residential cases. Whereas both saw appellants as equally (i.e., usually) "hopeful," commercial appellants are perceived by their assessors much more positively than are residential appellants.

Disappointment and frustration were seen strongly in residential appellants by their assessors. These assessors tended to see their appellants as somewhat more confused and angry than the commercial property owners.

Assessment on an annual basis was reported as sharply increasing the number of property owner contacts: by 75 percent for residential cases and 28 percent for commercial.

A series of questions were asked to learn where in the appeal sequence the assessor made use of sale prices of comparable properties to defend his assessment. Assessors uniformly reported using such data often or always in their own or a Supervisor's Hearing.

Similarly, there were questions about the assessor's asking property owners whether or not the assessment implies a realistic sale price for the property. This inquiry is the assessor's way of referencing the basic legal requirement under which he practices: to assess at fair market value.

Assessors uniformly reported use of this inquiry at their own or the Supervisor's Hearing. However about half the assessors report not using the inquiry when before the PTAAB or Maryland Tax Court or its examiner.

III. Respondent Comments: Assessors were asked for any additional comments. A number of specific and practical comments were gotten as, in summary, follow:

PTAAB case can take one-half day or more to prepare.

Expense and income questionnaire should be required for all appeal stages, starting with assessor's hearing.

Assessors need a data bank or retrieval system (to get to assessment data base).

IRS 1065 should be a required submission on commercial properties.

Triple hearings of condominiums (purchaser-association-developer) should be prohibited.

The notice (of assessment) should provide clarifying information on increases.

Envy, between subdivisions and within, generates appeals.

Better education of public, political leaders, and media is needed in tax principles and the role and nature of the assessment process.

Property owner should review his worksheet every two years.

Assessors and citizens need training in tax laws.

State control has been bad in two respects: 1) degraded quality of assessments in county as part of uniformity campaign by state and 2) ruined staff morale. State supervisor said "bring some counties up, others down." Morale also bad as a result of pay, promotion, benefit situation. Can't get or retain competent staff.

Property owner sees his assessment as the major determining factor in taxes and tax increases.

The assessment is available and attackable; the tax rate and taxing authority are remote.

Owner is deceived twice: once by the politically-originated announcement that tax rate will not be raised (even that it will be lowered). Once more after taxes go up when he concludes assessments are the cause.

A mechanism to appeal tax rate and the rate setting procedure is needed, and this will take the heat off the appeal process.

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APPENDIX C

SURVEY OF RESIDENTIAL PROPERTY OWNERS WHO HAD  
APPEALED BEFORE THE PROPERTY TAX ASSESSMENT  
APPEAL BOARD (PTAAB)

- I. Technical description: Although only two hearing days during the survey month (August 1977) were scheduled for appeal of residential property, 14 questionnaires were returned for an estimated response rate of approximately 50 percent. Because there is no information about those not responding and because two hearing days do not comprise a sample, rigorous conclusions should not be drawn from the data, and complex analyses cannot be based on the data.
- II. Findings: Nonetheless, quality, completeness, and consistency of responses were very high and justify reporting the basic data. Items 1 and 2 were sampling questions. Basic data on responses to remaining questions are as follows:

Equal portions of appellants reported they will appeal further (item 3).\*

For those not persisting, the reason given is too much time, cost and trouble.

For those intending to appeal further, their reasons are mixed, but the main reasons are that own taxes are too high, absolutely or relative to other properties.

Nearly all appellants knew of assessor's worksheets and (item 5) got one.

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\* Appellant most often is the property owner. Here the term is used for the person completing the survey questionnaire.

About 1/3 of appellants researched their appeal at the assessor's office, and about another third employed a variety of resources, including their own experience (item 6).

The telephone was used by about only 10 percent of appellants, but (item 8) about half went in to talk to the assessor.

Of those talking to the assessor, responses to item 9 show two general conclusions regarding assessor/appellant interaction:

1. Lack of information about the assessment, lack of understanding of explanations, or poor treatment were not major problem areas.
2. Despite their report that they understood what the assessor was saying and that they were well treated by the assessor, only about 10 percent of property owners also felt all the answers they got "were straight answers."

About half the appellants did not report having been asked by the assessor whether they thought their assessment implied a realistic sale price. For the remaining half, the question was asked about twice, most often at the Supervisor's Hearing and at early talks rather than at the PTAAB.

With one exception, very little cash expense was incurred during appeal, and for more than half there was no outlay at all. But property owners made substantial investments of time: more than 20 hours on average (items 11-12).

Regarding the assessment process and the appeal process, appellants reported opinions which were split between negative and positive (item 13).

Most appellants felt their assessment was inaccurate and unfair because it was higher than assessments on similar properties (item 14).

Using the assessed amount as an indicator of property value, appellants generally lived in homes in range of \$70-90,000 (item 15).

The average reduction sought on these assessments was more than 20% (item 16).

Appellants were nearly unanimous in expecting their appeal to result in a reduction (item 17).

Nearly all appellants agreed that the assessor did not introduce unexpected data or arguments at the hearing (item 18).

No appellants called seeking help from public advocate (item 19).

Appellant opinions of the public advocate were generally positive. Two appellants said the advocate was silent. One said he helped the assessor, and four said he helped their own case. Ten responses reported the advocate as helping the general understanding of everyone or of the PTAAB judges (item 20).

About half of respondents felt they were able to get all the information needed for preparing their case (item 21).

Slightly more than half had appealed expecting to win; ten percent doubted there was any real chance, and the remainder hoped there was some chance to win a reduction (item 22).

III. Respondent comments: Volunteered comments were impressive for their detailed insight into assessments, their constructive recommendations, and for straightforward identification of problem areas. There was too much diversity among comments to summarize them, so a full transcript of substantive comments has been prepared:

(Appeal is a) waste of time and money for the state.

Assessor (at hearing) was indifferent to the whole process; we could have gone to the board.

The assessor felt he had to be an adversary of the property owner.

Inform the public how it (assessing) works.

The entire burden is on the taxpayer.

Assessor (should) explain the reason for increased assessment when he sends the notice.

Reason for reduction should be attached to work sheet so annual appeals are not required:

A crazy quilt manual (the assessor's).

APPENDIX D  
ASSESSMENT HANDBOOK  
FOR  
RESIDENTIAL PROPERTY OWNERS

HOW IT IS DONE -- HOW TO APPEAL

I. Introduction

- A. The property tax, the assessment, and the tax rate: defined and differentiated.
- B. Role of property tax in county and state finances and services: basic dollar amounts and proportionate shares, pie chart figure.
- C. Composition of property tax revenues: who pays taxes; property type shares of tax burden.
- D. Overview of the assessment apparatus, the appeals process, and their interrelations; flow chart diagram of the yearly cycle of taxes and assessments.

II. Assessments

- A. Valuation and fair market price: what your assessor is telling you about the value of your land, improvements, and the total.
- B. Role of the individual assessor, the supervisor, and the state.
  - 1. Law, regulations, and precedent in assessments.
- C. Methodology of mass-assessment:
  - 1. Triennial inspection: how done; the worksheet and the assessment.
  - 2. Sales analysis: how computed; the computer data base, sales analysis and the assessment.
  - 3. Valuation and assessments. Definition of assessment as an estimate of sale price in the period 1.5 years before the levy year.

4. State oversight and regulations versus local discretion: where regulations are available and how to use them.

### III. Appeals

- A. Appeals are for valuation of property only, not to protest taxes.
- B. Categories of appeals which have resulted in reductions; location of PTAAB and Tax Court decisions; PTAAB Manual.
- C. Categories of appeals which are often denied.
- D. The appeals sequence: described in diagram, with advice as to where lawyer is useful; examples of forms to fill out.

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